2005 Texas Comprehensive Annual Financial Report

Fiscal Year Ended August 31, 2005

Carole Keeton Strayhorn
Texas Comptroller

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State of Texas
Comprehensive Annual Financial Report
For the Year Ended August 31, 2005

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Introductory Section

2005

February 28, 2006

To the Citizens of Texas, Governor Perry,
and Members of the 79th Texas Legislature:

The Comprehensive Annual Financial Report (CAFR) of the State of Texas for the fiscal year ended August 31, 2005, is submitted herewith. Responsibility for both the accuracy of the data presented, as well as the completeness and fairness of the presentation, rests with the office of the Texas Comptroller of Public Accounts. To the best of my knowledge, the information presented is accurate in all material respects and all disclosures necessary for a reasonable understanding of the state's financial activities have been included.

The reporting approach established by the National Council on Governmental Accounting in Statement No. 1 and endorsed by the Governmental Accounting Standards Board (GASB) has been utilized. The state also voluntarily follows the recommendations of the Government Finance Officers Association (GFOA) of the United States and Canada for the contents of government financial reports and participates in the GFOA's review program for the Certificate of Achievement for Excellence in Financial Reporting. This report is divided into three sections. (1) The Introductory Section provides this transmittal letter, Elected State Officials, government structure of Texas, and the GFOA Certificate of Achievement. (2) The Financial Section includes the auditor's opinion; Management's Discussion and Analysis (MD&A), which provides an introduction and an overview and analysis of the Basic Financial Statements; the Basic Financial Statements, which present government-wide financial statements for the primary government along with the component units of the State of Texas and fund financial statements for governmental funds, proprietary funds, and fiduciary funds, together with the Notes to the Basic Financial Statements; Required Supplementary Information other than MD&A, which presents budgetary comparison schedules and information about infrastructure assets; and Other Supplementary Information, which includes the combining financial statements. (3) The Statistical Section provides various financial, economic, and demographic data about the state.

The State Auditor has performed an audit in accordance with generally accepted auditing standards of the State's general-purpose financial statements. His opinion is presented in this report preceding the financial statements.

The State Auditor has contracted with KPMG to perform portions of the federal audit procedures necessary to meet the requirements of the federal Single Audit Act Amendments of 1996 and related Office of Management and Budget (OMB) Circular A-133. The Federal Portion of the Statewide Single Audit Report, for the year ended August 31, 2005, with the opinion expressed by the State Auditor's Office, will be issued separately.

Profile of the Government

This report includes government-wide statements and fund financial statements of various departments, agencies, and other organizational units, which are considered part of the State of Texas financial reporting entity. Criteria for determining the reporting entity and presentation of the related financial data are established by the GASB. The criteria include legal standing and financial accountability. Other organizations, which would cause the financial statements to be misleading or incomplete if they were excluded, are also included in the reporting entity. Note 1 of the Notes to the Financial Statements provides detail on the financial reporting entity. A brief summary of the nature of significant component units and their relationship to the State of Texas is discussed in Note 19.

All activities that would generally be considered part of the State of Texas are included in this report. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general government, employee benefits, and teacher retirement benefits.

Accounting System and Budgetary Controls

The MD&A, in the financial section, provides an overview of the State's financial activities addressing both governmental and business-type activities reported in the government-wide financial statements. In addition, MD&A focuses on the State's major funds: the General Fund, State Highway Fund, Permanent School Fund, Colleges and Universities Fund, Texas Water Development Board Funds, and the Texas Department of Transportation Turnpike Authority Fund. The fiduciary activities are excluded from the MD&A.

The State's financial statements for governmental funds, including general, special revenue, debt service, capital projects, and permanent funds, have been prepared on the modified accrual basis of accounting in conformity with generally accepted accounting principles (GAAP). Revenues are recognized when measurable and available to finance current expenditures; expenditures are recognized when the related liability is incurred. The government-wide statements (Statement of Net Assets and Statement of Activities), Proprietary (including Colleges and Universities), Pension and Other Employee Benefit Trust, External Investment Trust, Private-Purpose Trust, and Agency Funds are accounted for on the accrual basis. A summary of the State's significant accounting policies and other necessary disclosures are included in the notes to the financial statements.

The State's internal accounting controls provide reasonable assurance regarding the safeguarding of assets against loss from unauthorized use or disposal and the reliability of financial records for preparing financial statements. The concept of reasonable assurance recognizes that the cost of a control should not exceed the resulting benefit.

Budgetary control is exercised through expenditure budgets for each agency. These budgets are entered on the statewide accounting system after an appropriations bill becomes law. The appropriations bill becomes law after passage by the Legislature, certification by my office that the amounts appropriated are within the estimated collections, and the signing of the bill by the Governor. Controls are maintained first at the agency level, with additional control at the fund and appropriation level to ensure that expenditures do not exceed authorized limits. Further detail on budgetary accounting for the state is found in Note 1.

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded to reserve a portion of the applicable appropriations, is employed for purposes of budgetary control and contract compliance. Encumbrances at year-end do not constitute expenditures or liabilities.

Risk Management

The State assumes substantially all risks associated with:

- Claims of state employees for unemployment compensation.
- Claims of state employees covered by the state self-insured health care plan, Health Select.
- Claims of covered employees for workers' compensation benefits.
- General tort claims that parties may file against the state or its officials, employees, or appointees.

- Liability claims against the state or its agencies due to conditions of property, vehicles, aircraft, or watercraft.

Pension and Other Employee Benefit Trust Funds

The State of Texas contributes to five pension plans: Teacher Retirement System, Employees Retirement System, two Judicial Retirement Systems, and the Law Enforcement and Custodial Officer Supplemental Retirement Fund. The state also administers, but has not been required to contribute to, the Fire Fighters' Relief and Retirement Fund. The Other Employee Benefit Trust Funds include the Deferred Compensation Trust Fund, the State Employee Cafeteria Plan Trust Fund, and the Texa$aver Administrative Trust Fund that are administered by the Employees Retirement System. The Retired School Employees Group Insurance Trust that is administered by the Teacher Retirement System is also included.

Economic Outlook and Major Initiatives

During 2005's first 11 months, the Texas economy improved, matching 2004's moderate employment growth of 1.4 percent. Texas added 136,400 jobs from November 2004 through November 2005. Although this growth rate was modest compared to that seen in the 1990s, every major industry expanded its employment rolls in 2005.

This was the first year since 2000 that the state's manufacturing industry added jobs, and it was achieved even with historically high productivity gains. The information industry has suffered since the 2000-2001 high-tech bust, but it was a high-flyer during 2005, experiencing 2.7 percent job growth.

During 2005, the state and nation experienced almost identical growth rates, with similar rates of growth extending to individual industries. Texas and the nation also both witnessed improved unemployment rates, with the Texas rate falling from 5.9 percent to 5.3 percent over the past year.

Texas, however, began adding net jobs in manufacturing, albeit slowly, while the nation continues to lose net employment in manufacturing. Impressive gains in productivity per worker, both in Texas and the nation, have dampened the need for new hiring in the manufacturing sector, but the state's manufacturing industry gained a boost from notable job increases in primary and fabricated metals and machinery manufacturing, largely related to increased oil and gas drilling.

Overall, Texas ranked 24th among the states in its rate of employment growth over the past year. Although the state's job growth during 2005 was lukewarm compared to recent decades, Texas still added more jobs than all but two states.

Leading Indicators Point Upward Again

The Comptroller's Index of Leading Economic Indicators anticipates that a moderate level of economic growth will continue. The index, designed to forecast the state's employment growth four to six months in advance, predicts a relatively stable state economy in 2006, as long as any economic shocks remain within typical parameters.

Consumer confidence is one factor that rose substantially over the past year. Although it took a dip below its baseline level in September 2005, when hurricane damage and escalating fuel prices took their toll, the December 2005 level of consumer confidence was 14.4 percent above the survey's 1985 baseline, contributing to a healthy economic outlook in the year ahead.

The Consumer Confidence Index in the West South Central States (Texas, Oklahoma, Arkansas, and Louisiana) remained above its baseline 1985 level throughout all of 2005, except for September, after which it quickly rebounded. Although the index responds quickly in reaction to major political, economic, or business events, consumers' assessment of present and future economic conditions was generally stable and optimistic through 2005. In addition, all but one month of 2005 saw year-to-year increases in sales tax receipts, highlighting a growth in retail trade. Non-automobile taxable sales racked up an increase of 7.3 percent from 2004 to 2005. Information from vehicle sales tax receipts reveals automobile sales climbed 6.7 percent.

Higher energy prices, although a drag on much of the economy, were a positive development for the state's oil and gas drilling industry. The number of operating oil and gas

rigs, which had spiked up 33 percent in 2003 and another 13 percent in 2004, tacked on yet another 23 percent in 2005. With an average of 662 drilling rigs in operation, 2005 closed as the most active oil and gas exploration period in more than 20 years.

The housing market in Texas was particularly vigorous during the year. In spite of the growth experienced in Texas, housing price increases have not been as great in the state as nationwide, so the Texas market is not as likely to experience pitfalls if the current national housing bubble bursts. Housing prices in Texas rose by 6.0 percent during the year, and while less than the nation's average of 12 percent, price hikes in the state were more closely tied to real value, not swings prompted by housing speculation. The state continues to have some of the most undervalued residential real estate in the country, relative to household income. Texas' housing permits during the first 10 months of 2005 were up 7.9 percent, and sales of existing homes during the first 11 months were up 9.2 percent.

During the first 10 months of 2005, Texas posted a record average of new business incorporations, with a monthly average of 8,991 additional incorporations edging out last year's average of 8,952. These incorporations do not necessarily indicate a robust economy, because the number reveals nothing about the economic viability of newly incorporated businesses. Still, the state's entrepreneurial spirit is reflected in the unusually large number of Texans taking on the challenges of starting a new business.

At the close of calendar 2005, eight of the state's 10 leading economic indicators pointed toward an improved state economy in the near future. Positive signs included the increase in new business incorporations, retail sales growth, additional help-wanted advertising, rises in stock values and oil prices, a growth in housing permits, fewer initial claims for unemployment compensation, and a rising national index of leading economic indicators.

The state and national economies actually are stronger than the employment picture indicates. Employment growth has not reignited at the rates seen in the 1990s. Over the past three years, however, productivity (defined as output per worker hour) has grown at a 3.3 percent annual rate nationwide, accounting for nearly all of the nation's entire gross domestic product (GDP) growth, which averaged 3.5 percent annually. Businesses have not hired many new workers, because their current work forces, with the help of technological advances, have been able to keep up with demand. In light of this, Texas' apparently lukewarm employment growth of 1.4 percent in the past year underlies even greater economic strength.

Unemployment Rate Improving

The Texas unemployment rate has been improving for two years, dropping another 0.6 percentage points in 2005. During the year, the state's overall unemployment rate declined to its lowest level in four years and averaged 5.4 percent. Texas' unemployment rate had fallen from 7.7 percent in 1992 to a monthly low of 3.9 percent in December 2000, after which terrorist attacks trampled an already weakened economy and the nationwide high tech slump pushed the unemployment rate to a peak of 6.8 percent in May 2003. Since that time, unemployment has improved, albeit with occasional ups and downs.

Outlook for 2006 and 2007

The Comptroller's office forecasts that the state's gross state product growth in 2006 and 2007 will closely match the 3.8 percent real growth rate of 2005. Employment, however, is likely to grow more quickly than in the recent past, advancing by about 2 percent per year, compared to 1.4 percent in 2005. Even though employment growth is likely to improve, increasing interest rates and a gradual return to lower productivity rates are expected to restrain growth in the gross state product (the state's "GDP"). On the other hand, a weaker dollar is also anticipated, which will boost exports, so real gross state product growth in the range of 3.5 to 4 percent per year should continue. Factors underlying renewed growth in Texas are an up-tick in investment expenditures, continuing growth in the national economy, a boost in export trade, and continued low inflation. Pressuring the economy downward will be reduced consumer spending in the face of high consumer debt and a mild ratcheting up of mortgage and interest rates, pressured by a high national deficit, and the gradual tightening of the money supply by the nation's Federal Reserve Bank.

With the state's relatively low costs, a location at the buckle of the nation's most energetic economic regions—the south and the west—and sustained net in-migration, Texas' gross state product growth has outperformed U.S. gross domestic product growth in all but one year since 1991. The Comptroller's forecast model predicts that Texas' real gross state product will once again exceed forecasted U.S. growth in both 2006 and 2007, by about one-half of a percentage point per year.

An Overview of Texas Industries by NAICS[1] Sector

In 2005, all the state's industries added jobs, including manufacturing, which eked out a gain of 0.1 percent. A year ago, eight of the state's ten NAICS-based industries added jobs, but Information and Manufacturing still ended the year with fewer jobs than at the end of 2003.

The state's fastest job gainer over the year was construction, which grew 3.0 percent in response to the highest level of residential construction statewide in more than 20 years. Behind construction was information, which turned around a four-year hemorrhaging of jobs to grow by 2.7 percent in 2005. Natural resources and mining, spurred on by the positive impact of record energy prices on domestic oil and gas exploration, also added 2.7 percent to its job count during the year. This sector was followed by professional and business services, which had the largest job growth of any industry (27,100), expanding 2.5 percent.

Record Oil and Gas Prices Boost Natural Resources and Mining

New hiring in the oil and gas mining segment of the Texas economy occurred in 2005. The highest actual oil and gas prices in history helped the state's oil and gas industry to add jobs for the third consecutive year, reaching its highest employment level since 1998.

It was somewhat surprising, however, to those who remember how Texas' economy boomed or crashed with the price of oil in the past, that the overall job impact of large energy price increases in 2005 was comparatively minor. Natural resources and mining, the industry sector that includes oil and gas, added 4,100 jobs over the past year, for a growth rate of 2.7 percent, which represents only 3.0 percent of the state's overall job growth of 136,400 jobs.

The number of operating oil and gas rigs was 538 at the end of 2004, the highest level in 19 years, but 2005 closed with 662 operating rigs, the highest level in almost 21 years. Even with the increase in domestic exploration, Texas' oil and gas industry today is largely oriented to the operations of headquarters offices overseeing worldwide production, as well as to production within Texas. The 662 operating rigs in Texas pales compared to the 1,449 in December 1981, although improvements in drilling technology played a part in having fewer rigs today than in the past.

Oil and gas prices started 2005 at a relatively high level and rose to a peak in the fall after Hurricanes Katrina and Rita reduced offshore Gulf production. Taxable oil prices exceeded $60 per barrel for a couple of months, and taxable natural gas prices doubled from about $5 per million cubic feet (MCF) at the beginning of the year to nearly $10 per MCF in October and November. Higher prices did provide a boost to the industry, but since the investment psychology of the Texas oil and gas industry is more heavily weighted toward long-term worldwide investments than short-term domestic wildcatting, the Texas oil and gas industry is less economically volatile today than its history might suggest.

The natural resources and mining industry employed 158,000 Texans in November 2005, accounting for only 1.6 percent of total nonfarm employment in the state. And, while the industry experienced past swings of more than 20,000 jobs in a year, this year's large energy price increases resulted in a relatively small increase to the employment rolls of the natural resources and mining industry. Still, because of the high value of production, mining wage rates are well above average, and the industry has four times as many jobs in Texas as the national average for the industry, so oil and gas remains a major player in the Texas economy, comprising 8.0 percent of total gross state product.

1 Texas' industrial sectors are defined using the North American Industry Classification System (NAICS), the standard used by the federal government to classify industries. The Comptroller's office combines two NAICS sectors--Leisure and Hospitality and Other Services--to form a single industry.

Construction Industry Again Leads Job Growth

Construction was often the state's fastest growing industry during the 1990s. As the nation endured a general economic slowdown following September 11, 2001 and a decline in high technology investments, construction experienced three years of employment losses during 2002-2004.

Over the past year, construction began to rebound, not only adding jobs, but also regaining its position as the fastest job-growth sector. Continuing net migration into Texas and favorable mortgage rates prompted single-family residential construction to soar to a record high number of Texas housing starts in 2005. From January through November, 240,590 existing homes were sold in Texas, up 9.2 percent from the 220,336 homes sold during the same 11 months of 2004.

New home building permits for the first 10 months of 2005 were up 7.9 percent over the same period a year earlier, to an annualized rate of 199,842 permits. The selling price of the average Texas house rose 8.8 percent during the past year, to $177,300 over the three months of September through November. A collapse in housing prices where they have inflated rapidly in recent years, such as the Northeast, Florida and the West Coast, would have little impact on Texas' home values.

The industry segment known as nonbuilding construction, including roads and bridges, was its most active in four years. Statewide employment in heavy and civil engineering construction was the state's fastest growing industry component over the past year, according to the Texas Labor Market Review. This sub-industry added 7,400 jobs during 2005, for a 7.6 percent growth rate, with the highway, street, and bridge construction employment portion growing by 10.5 percent.

On the other hand, nonresidential construction, which includes office buildings and warehouses, posted its fifth consecutive year of mild job declines. It appears that nonresidential construction is bottoming out and is forecasted to rise in 2006 as private investment in business and nonresidential structures has begun to turn upward.

Overall, Texas construction employment was up 3.0 percent from November 2004 to November 2005, an increase of 16,400 jobs. Consistent growth of Texas' single-family housing construction over the last six years was not enough to overcome the crimped investment in business-related construction, and the corner was turned in 2005. During the year, nonbuilding construction activity, such as highways, roads, and bridges, dovetailed with the single-family housing market, leading Texas construction employment to 559,300 jobs in November 2005, up from 542,900 a year earlier.

Manufacturing Ekes Out First Net Employment Increase in Five Years

For the first time since 2000, Texas manufacturing added more jobs than it lost. In terms of gross state product, the Comptroller's forecast model estimates real manufacturing economic output increased by 2.1 percent in 2005. Because of productivity improvements, however, the employment numbers did not match this growth. Employment advanced by a mere 0.1 percent.

The growth was not apparent in all segments of manufacturing. A collection of durable goods industries accounted for most of the manufacturing job gains, with a total of 7,600 additional jobs in transportation equipment, electrical equipment, fabricated metals, and fabricated metals boosted by oilrigs and their components. Nondurable goods employment continued to decline, dropping collectively by 5,100 jobs, or 1.6 percent, with most of these losses in food manufacturing, printing, and petrochemicals. Overall, Texas manufacturing added 600 jobs over the year, totaling to 891,200 jobs.

Most of the durable goods sectors added jobs over the past year, including gains by fabricated metals (2,800 jobs), transportation equipment (2,700), electric equipment and components (1,100), machinery (700), and wood products (600). Losses occurred in computers and electronics (down 2,000), furniture (down 800), and miscellaneous durable goods (down 600). The fabricated metals industry, which includes a wide range of metal work from sheet metal to electroplating, valves, tools, and hardware, has suffered in recent years from a dearth of nonresidential construction and the resulting lack of demand for architectural and structural metals. However, the increase in the demand for oil and

gas rigs and their components has boosted this manufacturing segment over the last couple of years. Motor vehicle manufacturing, taking advantage of hiring at the new Toyota plant, located in the San Antonio area, was the fastest growing segment reported by the Texas Workforce Commission over the past year, growing by 11.4 percent statewide, to 7,800 jobs in November 2005.

Among nondurable goods, job losses were more pervasive, because these sectors were more affected by the impact of technological improvements and productivity gains on hiring. For example, the state's food manufacturing industry got by with 1,300 fewer workers than it had a year earlier, and printing continued to be affected by online alternatives to printed publications and newspapers, dropping 1,200 jobs statewide. Chemical manufacturing lost 800 jobs, and paper manufacturing lost 700 jobs. The nondurable goods sectors that gained employment in Texas all added relatively few net jobs over the year. Plastics added 400 jobs, petroleum refining and coal products added 200 jobs, and employment in beverage manufacturing added 100 jobs.

As in the past, the outlook for manufacturing varies by the industrial sector. On the positive side, exporters should receive a boost due to expected declines in the dollar's value. This shift will make Texas exports more competitively priced worldwide. Also, the Institute for Supply Management's purchasing managers' index, which tracks the purchase intentions of businesses, remains in an expansionary range for the 31st consecutive month, standing at 54.2 points in December 2005. An index value above 50 points indicates an expanding manufacturing industry. The outlook for manufacturing job growth in Texas is guarded, with employment gains of less than one percent in 2006 and even less in 2007. Production, as measured by gross state product, will continue to advance more quickly, as productivity gains continue, albeit at a moderated pace.

Trade, Transportation, and Utilities

Trade, transportation, and utilities posted another stable year during 2005, with both wholesale and retail trade posting marginal gains in economic growth as well as in employment. Utilities continued to lose jobs at a slower pace than in 2003 or 2004.

Trade, transportation, and utilities is the largest employer among the state's industries, accounting for nearly two million jobs (20.4 percent of total nonfarm employment). In 2005, the sector accounted for 19,200 new jobs, 14.1 percent of the state's job growth. The industry had suffered year-to-year losses in November 2001 (down 35,300 jobs), November 2002 (down 27,200), and November 2003 (down 13,000), before turning around to gain 30,300 in November 2004, for its first year-to-year gain in four years. Based on preliminary figures, the growth in 2005 was somewhat slower, but the 19,200 gain is subject to revision when employment estimates are benchmarked to the more complete employer survey early in 2006.

For calendar year 2005, sales tax collections, of which more than 50 percent come from households, increased by a solid 7.3 percent, following a strong 8.6 percent in 2004. Automobile sales increased substantially as well, judging from vehicle sales tax receipts, with 6.7 percent growth in 2005, turning around a loss of 0.2 percent in 2004. As a result, Texas retail trade employment rose during the year, albeit at a relatively modest rate of 0.7 percent. This tepid growth was held back by weakness in some retail sectors, most notably electronics and appliance stores, with additional small losses in sporting goods, hobby, and music stores.

The fastest growing retail sector, although the smallest in size, was a category known as nonstore retailers—including electronic, Internet and mail-order retailers—which added jobs at a healthy 5.4 percent rate (1,100 new jobs). Other retail sectors adding more than 1,000 jobs during the year were general merchandise stores (such as department stores, discount stores, and warehouse clubs), which added 3,700 employees statewide (up 1.5 percent), building materials and garden equipment supplies (up 1,900, or 2.2 percent), miscellaneous retailers (such as novelty shops, florists, office supplies, pet stores, art dealers, and manufactured home dealers), which added 1,600 (up 2.6 percent), and food and beverage stores (up 1,400 jobs, or 0.7 percent). In sum, retail trade added 8,200 jobs statewide from November 2004 to November 2005.

In the transportation sector, air transportation had been a major contributor to the state's job losses from 2001 to 2003, but this battered industry temporarily stopped losing

jobs in 2004. Air transport continued to suffer from hub-based structural problems and high fuel costs in 2005 and had another down year, giving up 3,300 jobs (down 5.0 percent). On the other hand, support activities for transportation, such as ports, cargo, air traffic controls, and airport operations, nearly made up for the losses by garnering 2,400 jobs (up 3.9 percent).

The state's largest transportation sector, truck transportation, also was hurt by abruptly increased fuel prices during the year, however, the sector managed to add 1,500 jobs statewide, for a growth of 1.5 percent. Rail transportation accounts for only 5.5 percent of all transportation jobs in Texas, but this was the fastest growing segment of the industry in terms of the employment growth rate. Rail transportation employment increased by 700 jobs (up 4.2 percent) and accounted for almost one-third of the job growth in the transportation sector, which added a total of 2,200 jobs, for a growth rate of 0.8 percent over the past year. The transportation sector with the greatest percentage loss in jobs over the year was pipeline transportation, which gave up 800 jobs (down 6.8 percent).

Utilities experienced yet another year of small job decreases, dropping 200 jobs (0.4 percent), as higher fuel costs squeezed profit margins. The state's utilities sector, following a nationwide pattern, has lost jobs every year since 2001. As natural gas prices rose, the natural gas distribution segment of utilities held onto its employees, but the electric power generation and transmission segment was responsible for job losses in the sector.

Information Industry Almost on Track

The Texas information industry suffered during 2001, 2002 and 2003, before nearly breaking even in 2004. During 2005, the information industry was the state's fastest growing service-providing industry. The industry lost nearly 20 percent of its workforce between the high technology cutbacks of 2000-2001 and its bottoming out in mid-2004.

The information industry has been the most volatile in terms of job losses and job gains over the last decade. In general, this industry had huge annual employment gains of five percent or more in the late 1990s and huge losses in the early 2000s, after the taps of high tech investment stopped flowing freely. Among the industries with the fastest employment losses, the information industry tied with manufacturing in 2002 and had the greatest losses of all Texas industries in 2003 and 2004.

Preliminary employment reports last year showed that the information industry had turned the corner to renewed growth in 2004, but the more complete employer survey showed that 2004 had been another year of job losses. This sector's ascension to the state's fastest growing service industry in 2005 was a welcome change for those in the long-beleaguered industry.

However, within the information industry, there remains wide variation in economic health and the telecommunications segment still has not turned the corner. Nearly 40 percent of Texas' information jobs are in telecommunications. With tough competition and small profit margins, this sector lost another 1,400 jobs during 2005, down 1.5 percent from 2004.

With the telecommunications losses, it is obvious that other information sectors must have done particularly well to boost the entire industry in 2005. That was evident for the publishing industry, which added more than half the job growth of the entire information industry, tacking on 3,200 jobs, (primarily in the areas of mailing list and Internet publishing) and increasing its job rolls by 6.5 percent. Internet service providers and Web-search portals added 1,800 jobs, for a robust growth of 5.2 percent.

The information industry also includes television, periodicals, newspapers, motion pictures, software, and libraries. Overall, the information industry grew by 6,000 jobs, an increase that brought Texas employment in the industry to 230,900 in November 2005, although employment in the sector remains 17.5 percent below its 279,900 peak in September 2000.

Financial Activities Boosted by Increased Real Estate Activity

Financial activities, which include banking, credit businesses, insurance, real estate, and rental and leasing, continued to grow in recent years, although the rate of growth

was for the most part sluggish. Over the past year financial activities job growth slightly outstripped the state's overall employment growth, the majority of the renewed strength was in the real estate segment. Overall, financial activities added 9,200 jobs from November 2004 to November 2005, resulting in an increase of 1.5 percent.

The growth in the industry has primarily been driven by a 2.5 percent increase in jobs in real estate, as Texas participated in a nationwide resurgence of residential real estate activity. Housing price increases and the record number of housing permits gave more business to real estate and banking services, and this eventually translated into an increase in hiring. The credit intermediation branch of the industry, which includes commercial banking and savings institutions, also showed new life in 2005, and employment grew by 5,200 jobs, an increase in 2005 from 2004 of 2.4 percent.

Consolidations and mergers continue to shrink the number of Texas banks, but balance sheets showed relative stability and a healthy return on bank assets. Texas-headquartered banks had a fairly good year, with total deposits rising from $118.6 billion at mid-year in 2004 to $130.8 billion by mid-year of 2005, and the FDIC reported that the percentage of unprofitable banks dropped from 6.2 percent in 2004 to 5.5 percent in 2005.

The insurance segment of financial activities, as well as the rental and leasing segment, grew more slowly over the past year. Overall, insurance had no net increase of jobs, although insurance carriers added 600 new positions in 2005, an increase of 0.7 percent from 2004. Rental and leasing services grew by 700 jobs, or 1.2 percent.

Professional and Business Services Witnesses Rapid Gains in Temporary Jobs

Most sectors of the Texas professional and business services industry experienced job growth during 2005. The industry was one of the fastest growing industries during both 2004 and 2005, growing at rates of 2.9 percent in 2004 and 2.5 percent in 2005, and adding more jobs than any other Texas industry in both years.

The professional, scientific, and technical services components comprise more than 40 percent of this industry. It includes a wide range of activities—including lawyers, tax preparers, architects, testing laboratories, design services, consulting, public relations workers, advertising, research, photographers, and veterinarians. This component of professional and business services ran counter to the industry and lost 4,700 jobs (down 1.0 percent) from November 2004 to November 2005. Notably, within this segment, architects and accountants added employment, whereas legal services declined.

Management services is a much smaller part of the industry but grew at a rapid 3.5 percent rate, as management operations benefited from the need for personnel in the scientific and technical segment of the industry.

The real star of the professional and business services industry was administrative and support services, including temporary jobs. Employment services, such as temporary help agencies, added a significant 22,900 jobs, resulting in a dramatic increase of 9.8 percent over the past year. This gain was not only the fastest growing segment of the professional and business services industry, the 22,900 jobs added in this sector also accounted for 17 percent of the state's total nonfarm employment growth over the past year. Before hiring full-time employees, many businesses opt for bringing in part-time workers until it is clear that business activity will support full-time positions. Without unexpected shocks, this particularly rapid growth in employment agencies foreshadows increased full-time hiring in the near future.

Educational and Health Services Spurred on by Home Health Care

Nearly 42 percent of the new jobs in educational and health services in Texas in 2005 were in home health care, which is in line with national trends. In Texas this sector grew by 9,800 positions, an annual increase of 5.9 percent. The health services segment collectively accounted for 23,000 of the 23,600 jobs added to the educational and health services industry during 2005. The state's rapidly growing elderly population draws more heavily on health services than the overall population, contributing to the

growth of health care and social assistance employment. The state's educational and health services industry grew by 2.0 percent over the past 12 months, and accounted for more than 17 percent of the state's net growth in nonfarm employment between November 2004 and November 2005.

The fastest-growing individual subsector of this industry was home health care services, with other health care services also growing substantially. Physician's offices and ambulatory health care, comprised of dental, optometric, and mental health and ambulatory mobile offices, added 15,400 jobs, an annual increase of 3.5 percent. Hospitals added a comparatively small 1,200 jobs, an increase of 0.5 percent, and social assistance services, including day care for children, added 5,000 jobs, a 3.0 percent increase. Educational services, including private schools and colleges, saw an employment increase of 500 jobs, for an uncharacteristically small annual increase of 0.4 percent.

Leisure and Hospitality Services Have Another Positive Year

Restaurants and drinking places comprise the bulk of the leisure, hospitality, and other services industry and also accounted for nearly four-fifths of the job growth in this industry during the year. In 2005, real per capita wages in Texas grew at their fastest rate since 2000. This was good news for the state's leisure, hospitality, and other services industry, which depends largely on rising disposable personal income. In terms of job growth, this industry grew faster than the state average during 2005, adding 17,500 jobs, an annual increase of 2.0 percent.

The arts, entertainment, and recreation component of the industry was the fastest growth component of this industry over the past year, with 3,600 additional jobs, up 3.8 percent, followed by personal and laundry services, which increased by 3,400 jobs and 3.6 percent. All segments of the industry expanded except for repair and maintenance, which lost 800 jobs (down 0.8 percent), and amusement, gambling, and recreation lost 300 jobs (down 0.4 percent). Repair services have been hurt by increasing numbers of products that are more cost-effective to replace than to repair. The hotel and motel industry showed healthy growth, adding 2,200 jobs statewide, for a job increase of 2.4 percent. Civic, religious, and professional membership associations and organizations added jobs, but at a lackluster rate of 0.2 percent during the year.

Texas Government Employment

Education was about the only segment of government that added jobs during 2005, although federal defense employment advanced by a small 200 jobs, an increase of 0.4 percent. In Texas, the U.S. Postal Service cut back 900 jobs, and all other federal government employment in Texas was reduced by 800 jobs. Combined postal, defense, and civilian government employment in Texas declined by 0.9 percent during the year. State government, adversely affected by budgetary constraints, fared even worse, losing 5,200 jobs, for a loss of 1.5 percent. This was in spite of an increase of 4,700 positions at the state's educational institutions, colleges, and universities. The local government sector, excluding jobs gained from schools, lost 8,500 jobs, down 2.2 percent.

Even with all these losses, the state's overall employment in government grew by 11,300 jobs during 2005, for a growth rate of 0.7 percent. This hike was almost entirely due to an increased hiring of 26,700 positions at local, public school districts and 4,700 positions at state higher educational institutions.

School Finance Lawsuit and Property Tax Relief

In November 2005, the Texas Supreme Court ruled in the West Orange-Cove school finance lawsuit that the Texas school finance system has become a constitutionally prohibited state property tax. The Supreme Court overturned the district court's rulings that the school finance system violated the constitutional mandate for an adequate, efficient, and suitable system of public education.

The Court gave little specific guidance about legislative remedies but pointed to a number of general options, ranging from raising tax caps or increasing revenue, to structural reforms, such as school district consolidations or a complete restructuring of the school finance system. The Court did not

strike down the "Robin Hood" recapture provisions of the current school finance system.

The Governor appointed a 24-member Texas Tax Reform Commission to study Texas taxes and make revenue recommendations to the Legislature in anticipation of a special legislative session expected to be called in Spring 2006. The legislature must find a remedy before the court-imposed deadline of June 1, 2006.

Hurricanes Katrina and Rita

In late August 2005, Hurricane Katrina pummeled much of the Gulf Coast causing large-scale destruction and a massive displacement of people while earning its rank as the costliest natural disaster in U.S. history. Weeks later, Hurricane Rita hit the Texas and Louisiana coast creating further destruction in the gulf. The impact of these storms, both human and monetary, will have lasting effects on the Gulf Coast region.

Although Katrina did not hit Texas, it greatly affected the state. Texas welcomed several hundred thousand people fleeing from Louisiana. As of February 3, 2006, Federal Emergency Management Agency (FEMA) reported 157,420 households from Louisiana, Mississippi, and Alabama had registered with FEMA for assistance and are now living in Texas. Using FEMA's estimate of 2.5 people per family, based on the average number of people per family in the New Orleans 2000 census, FEMA estimates 393,550 Katrina evacuees remained in Texas. The State of Texas estimates these people are likely to remain in the state for the foreseeable future. The Texas coast, home to many of the evacuees, was itself badly damaged by Rita only weeks later. As of February 3, 2006, FEMA reported another 27,891 individuals and families from Louisiana had registered with FEMA for assistance from Hurricane Rita damage, and are now living in Texas. Again, using FEMA's estimate of 2.5 people per family, FEMA estimates another 69,728 individual evacuees remain in Texas as a result of Hurricane Rita. In total, for both Hurricanes Katrina and Rita, FEMA reports 185,311 families from Louisiana, Mississippi, and Alabama are in Texas, representing an estimated 463,278 people.

In Texas, for Hurricane Rita, FEMA reports 456,322 Texas families registered with FEMA for assistance as of February 3, 2006. Of those, 104,841 families have evacuated their damaged Texas home, and are living in temporary housing elsewhere in Texas.

A total of 1,702,956 families have registered with FEMA nationwide for Hurricane Katrina, and another 841,017 have registered for Hurricane Rita. Texas is home to 25.2 percent of those families; 19.0 percent from Rita and 6.2 percent from Katrina.

As of February 6, 2006, approximately 3,300 hotel rooms in Texas housed Katrina and Rita evacuees, representing 17.6 percent of all hotel rooms occupied nationwide by evacuees. The challenges ahead include schooling for evacuee children, providing medical care, cleaning up, and rebuilding after these two damaging storms.

According to the Texas Education Agency (TEA), Katrina evacuee student enrollment statewide has stabilized at approximately 39,500, as of January 27, 2006. Total estimated evacuee education cost is $230 million for the 2006-07 biennium. U.S. Education Secretary Margaret Spellings proposed up to $1.9 billion in funding nationwide to be made available to school districts and charter schools enrolling at least ten evacuee students. The funding would flow to districts based on the number of evacuee students enrolled, at a rate of up to 90 percent of the state's average per pupil expenditure for education, with a maximum payment of $7,500 per child. As of January 2006, the state has received $50 million in aid payments. TEA did not track Texas Rita evacuee enrollments, since those students were already enrolled in Texas schools and included in the current budget.

The federal government allowed Hurricane Katrina evacuees to be provided Medicaid and Children's Health Insurance Program (CHIP) services for five months in Texas at 100 percent federal reimbursement. The program began in September 2005 and the application deadline was January 31, 2006. Thus, services delivered through June 30, 2006, may be eligible for reimbursement dependent upon when the evacuee's coverage began. Estimated 2006 state agency expenditures for these programs are $655.7 million ($535.8

million federal; $119.9 million state). As of February 6, 2006, there are 40,548 Katrina and Rita evacuees from Louisiana, Mississippi, and Alabama enrolled in Texas Medicaid, including 7,861 individuals enrolled in uncompensated care pools. Agencies' cost estimates assume the federal waiver will not be extended and eligible evacuees will then be served through Texas' Medicaid and CHIP programs at the Federal Medical Assistance Percentage, approximately 60 percent. Currently, budget reconciliation bills being considered by Congress would provide 100 percent federal reimbursement for Medicaid services provided to hurricane evacuees through May 15, 2006. The state agency cost estimates do not include the potential impact of these bills.

As of November 10, 2005, 48 state agencies had submitted reports of hurricane related costs totaling $1,395.1 million for fiscal 2006. More than 80 percent of total costs are for Hurricane Katrina ($1,130.5 million), with the balance of $264.6 million attributable to Hurricane Rita. Beyond fiscal 2006, expenditures for public education and health care will be long-term, recurring costs. As agencies are still compiling information and federal reimbursement is still being determined, the ultimate fiscal impact to the state is not yet known. As of February 6, 2006, 3,444 Katrina evacuee families are enrolled in Temporary Assistance for Needy Families in Texas. In addition, 452,083 Katrina and Rita evacuees from Louisiana, Mississippi, and Alabama, representing 152,605 cases or families, are receiving food stamps in Texas.

The U.S. Congress appropriated $62 billion for hurricane relief in September 2005. Since that time, the Defense Appropriations Act added another $29 billion for hurricane relief in December 2005. Other tax incentive provisions adopted total approximately $15 billion as of January 2006.

As Texas Comptroller, I have implemented an unprecedented plan to help local governments in areas affected by Hurricane Rita. Sales tax revenue decreases for several months following the hurricane led to short-term fiscal problems for these entities. The plan allowed them to receive an additional sales tax allocation in November and December 2005 to make up the difference between allocations in those months and the amount they received in November and December 2004. Although sales tax revenue is up statewide, November sales tax allocations to 73 Southeast Texas cities, counties, special purpose districts, and a transit system affected by the hurricane were down $2.3 million, or 4 percent, compared to November 2004. These additional allocations were made from the retained balance in the Local Sales Tax Trust Fund. Recent sales tax increases in the affected counties are mitigating some of the earlier losses.

Special Events Trust Fund

In an effort to attract and retain major sports events and other special events to Texas, the 79th Texas Legislature adopted two pieces of legislation. The first one, S.B. 150, will expand the state law supporting major sporting events, including the Olympic Games, Pan American Games, Super Bowl, National Collegiate Athletic Accociation Final Four, professional All Star Games, Bowl Championship Series Games, World Cup Soccer Games, Automobile Competition Committee of the United States, and the Champ Car World Series organization or the American Le Mans Series organization.

The bill set up the Motor Sports Racing Trust Fund to help finance the costs of bidding for, preparing for, and conducting major motor racing events. The local county or municipality can request an estimate from the Comptroller of the total amount of tax revenue expected to be deposited in the trust fund should the event be held. No later than three months before the event, the Comptroller would provide the estimate to the requesting entity. The bill also authorizes a county or municipality to issue notes for facilities or equipment associated with the event and the trust fund could be used to pay the principal and interest costs on these notes.

Localities that meet the population requirements of the law are Bexar, Dallas, Harris, and Tarrant counties and the cities of Dallas, Houston, and San Antonio. Any costs to local entities associated with hosting a major motor sports racing event are expected to be more than offset by the revenues generated.

The other new law, S.B. 1253, will allow cities and counties to use a portion of the sales tax revenue generated by a special event to assist in paying expenses incurred in

connection with the event. "Special events" would include events held in a public place in the host community chosen by a national or regional site selection organization. Host communities will be required to have an economic impact study certified by the Comptroller of Public Accounts and the event would need to be awarded to the community through a competitive process.

If approved, a host community would be eligible to receive an amount not to exceed the lesser of one-half of the amount of estimated expenses or one-half of the amount of the anticipated increases in sales tax receipts. The money could be used to pay for a public purpose related to the event, but could not be used to construct a facility.

In December 2005, I approved the first economic impact analysis under S.B. 1253 to help the City of Fort Worth retain the National Paint Horse Association's 2006 World Championship show. In January 2006, I approved the economic analysis in support of the National Cutting Horse Association's (NCHA) 2006 Summer Spectacular also in Fort Worth. The NCHA and the City of Fort Worth are preparing the final versions of the economic analyses in support of the other two "jewels" in the NCHA 'Triple Crown of Cutting', the 2006 Super Stakes and the 2007 Futurity, both to be held in Fort Worth.

Deduction of Sales Taxes from Federal Taxes

In 1986, Congress passed the Tax Reform Act (TRA86). The Act was based on President Reagan's tax reform proposal, which called for the removal of all deductions for state and local taxes–whether based on income, property, or sales. The final version of the Tax Reform Act left the deductions for income and property taxes intact but eliminated, however, the deductibility of sales taxes.

In March 2002, my staff issued a special report proposing to restore much of the federal sales and motor vehicle sales tax deductions. In June 2004, the original report was updated. The proposed deduction would allow taxpayers in all states the option of deducting either their state or local sales and motor vehicle sales taxes or their state and local individual income taxes on their IRS Form 1040. Comptroller staff estimated that increased economic activity from the deduction would boost General Revenue by $37.8 million for the two-year period of 2005-06.

In October 2004, President Bush signed legislation that allowed taxpayers to deduct sales tax on their federal income tax returns for 2004 and 2005, but the deduction expired on December 31, 2005. Currently, there are bills in Congress that would prolong the sales tax deductibility. H.R. 4297 (Tax Relief Extension Reconciliation Act of 2005), Title I, Sec. 117 would extend it through 2006, as would S.2020 (Tax Relief Act of 2005), Sec. 211.

If the extension of the sales tax deductibility passes into law, Texas would experience a continued positive economic impact in 2007 as well.

Transportation Finance

Texas' pay-as-you-go approach to transportation finance has changed significantly. Legislation passed in 2001 and 2003 supplements the Texas Transportation Commission's existing authority to issue turnpike bonds by adding bonds secured by the State Highway Fund and the Texas Mobility Fund, as well as short-term notes to cover shortages in the State Highway Fund. In addition, regional mobility authorities have been authorized to issue revenue bonds to construct, maintain, and operate road projects within their own jurisdictions.

Due to the new financing tools and an influx of federal funds, Texas Department of Transportation (TXDOT) appropriations grew dramatically from the 2004-05 biennium to the current 2006-07 budget period. Total appropriations increased by $2.9 billion to almost $15.2 billion from the 2004-05 funding total, an increase of 24.1 percent. Federal funds alone increased by $938 million, or 15 percent, over 2004-05 amounts due to the new federal transportation funding law. Texas and other states, which historically contribute more than they receive from the federal Highway Trust Fund ("donor states"), will see increases in federal funds over the next five years.

The Texas Mobility Fund finances 12.7 percent of TXDOT appropriations for the 2006-07 biennium, about $1.9 billion. In May 2005, the state's Bond Review Board approved the issuance of up to $4 billion in general obliga-

tion Mobility Fund bonds, and issued the first $1 billion in fiscal 2005. The Bond Review Board stipulated that toll roads would not be a prerequisite to receive money from the bond issuance.

Economic Stabilization Fund

With the state's 1986-87 economic collapse still fresh in mind, Texas voters adopted a constitutional amendment in November 1988 creating the Economic Stabilization Fund (ESF), or "Rainy Day Fund." The ESF receives 75 percent of the amount by which oil and natural gas tax collections in any year exceed 1987 collections and one-half of any unencumbered General Revenue surplus at the end of each biennium.

Money in the fund can be appropriated by a three-fifths vote in both houses to address a deficit that develops after the adoption of a budget or to make appropriations for a biennium in which the Comptroller forecasts a decline in revenues. Otherwise, a two-thirds vote in both houses is required to make an appropriation from the fund.

In September 2005, $905 million was transferred to the ESF. An additional transfer will be made in the fall of 2006. The 2005 Texas Legislature appropriated $1.93 billion from the ESF through fiscal 2007. Appropriations will fund a number of programs including child protective services, foster care, and public school textbooks. An additional $100 million was appropriated to the Governor's trusteed programs if transfers to the fund during the biennium exceed the Comptroller's estimate.

Information Resources

The Texas Department of Information Resources (DIR) was created in 1989 to guide information-technology management in Texas government. The agency's principal responsibilities are to encourage the efficient use and management of information resources and to assist state agencies and other governmental entities in their efforts to acquire information resources in the most cost-effective manner.

The 2005 Texas Legislature adopted H.B. 1516, which strengthens DIR's oversight authority of state technology projects in a number of ways. The new law requires state agencies to purchase hardware, software, and technology services through DIR and to report technology expenditures and project development information to DIR. Statewide data center services will be consolidated under DIR and DIR now is authorized to operate statewide technology centers to provide services to agencies on a cost-sharing basis.

In addition, DIR collaborated with Government Technology magazine to produce Texas Technology, a new publication featuring regional news and best practices for Texas state and local government agencies. The magazine will be published on a quarterly basis. The first issue was published in December 2005, with an estimated circulation of 30,000.

Awards and Acknowledgments

Certificate of Achievement

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Texas for its Comprehensive Annual Financial Report for the fiscal year ended August 31, 2004. The Certificate of Achievement is a prestigious national award that recognizes conformance with the highest standards for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report whose contents conform to program standards. Such reports must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The State of Texas has received a Certificate of Achievement for the last 15 years (fiscal years ended August 1990 through 2004). We believe our current report continues to conform to the Certificate of Achievement Program requirements, and are submitting it to the GFOA.

I will continue to maintain a highly qualified and professional staff to make this certification possible.

Acknowledgments

The preparation of this report requires the collective efforts of literally hundreds of financial personnel throughout the State, including the dedicated management and staff of my Financial Reporting Section and Fiscal Management Division; the chief financial officers, chief accountants, and their staff at each agency; and the management and staff of the State Auditor's Office. I sincerely appreciate the dedicated efforts of all these individuals who continue to strive for improvements that will result in Texas being a national leader in quality for financial reporting.

Sincerely,

Carole Keeton Strayhorn
Texas Comptroller

State of Texas Comprehensive Annual Financial Report

State of Texas
Elected State Officials

Executive

Rick Perry
Governor

David Dewhurst
Lieutenant Governor

Carole Keeton Strayhorn
State Comptroller

Greg Abbott
Attorney General

Jerry Patterson
Land Commissioner

Susan Combs
Commissioner of Agriculture

Victor G. Carrillo
Elizabeth Ames Jones
Michael L. Williams
Railroad Commissioners

Legislative

Lieutenant Governor, David Dewhurst, presides over the Senate

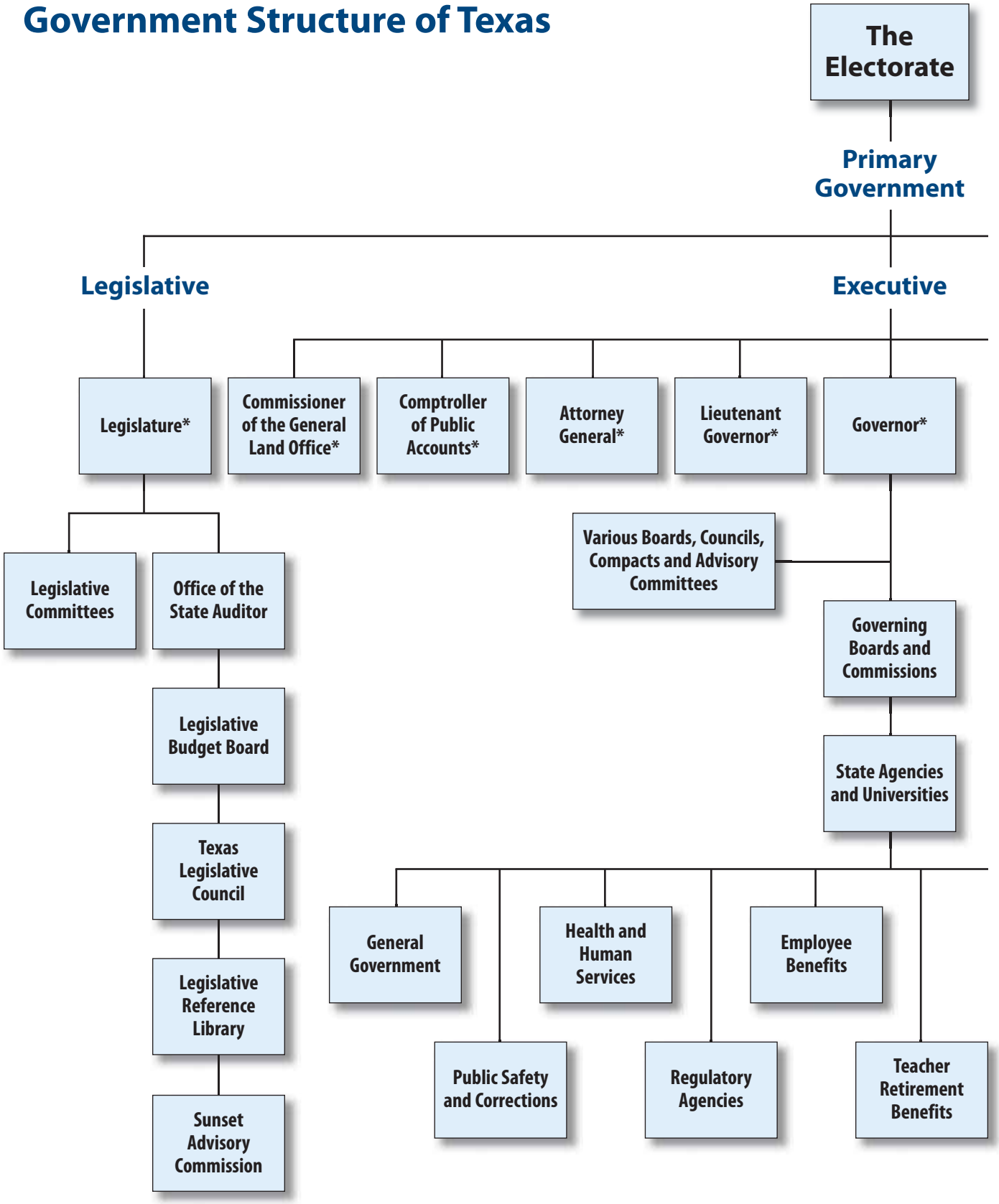
Tom Craddick
Speaker of the House of Representatives

Judicial

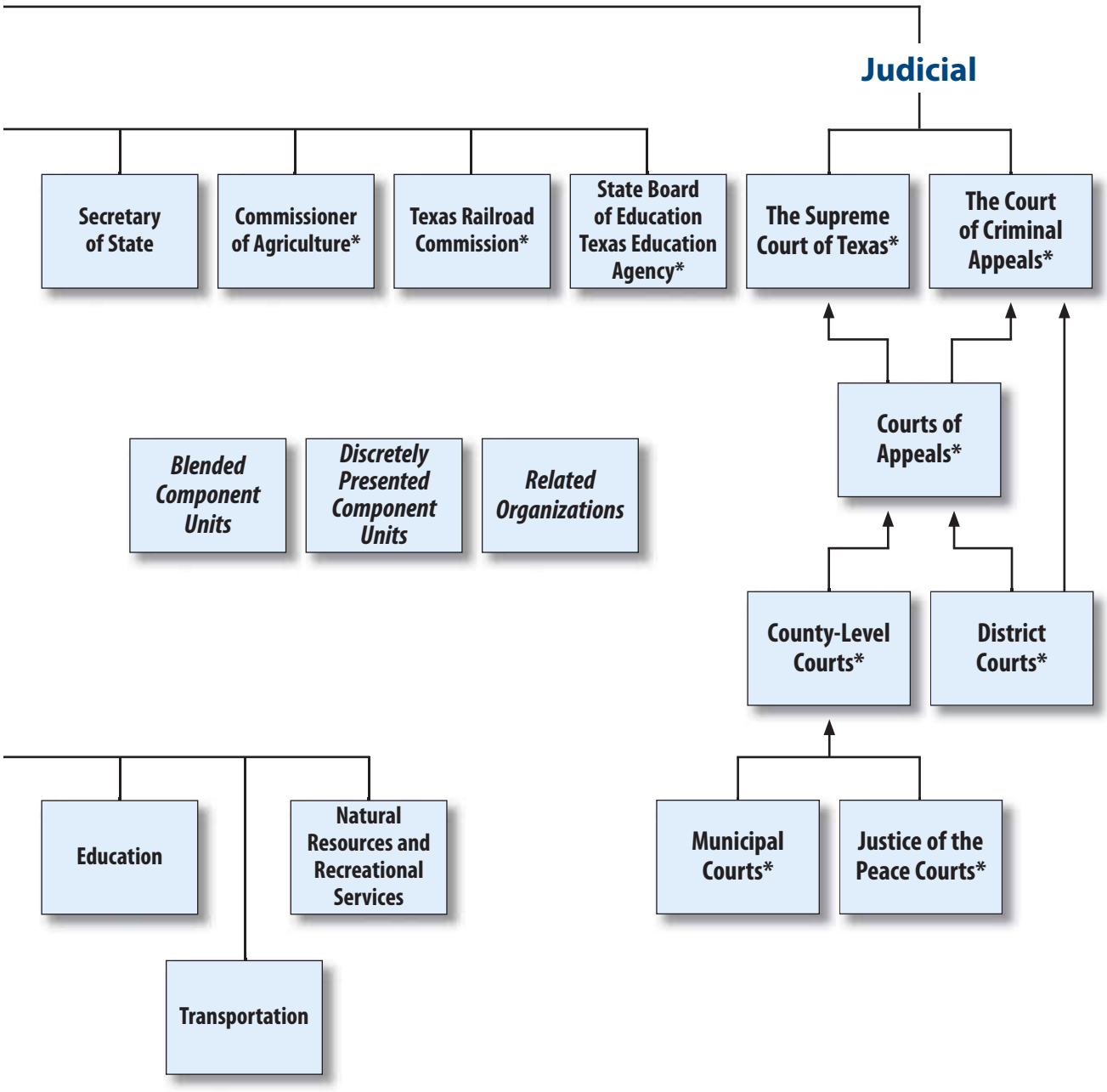
Wallace B. Jefferson
Chief Justice of the Supreme Court

Sharon Keller
Presiding Judge, Court of Criminal Appeals

Government Structure of Texas



* Elected Offices


Judicial
Secretary of State
Commissioner of Agriculture*
Texas Railroad Commission*
State Board of Education Texas Education Agency*
The Supreme Court of Texas*
The Court of Criminal Appeals*
Courts of Appeals*
Blended Component Units
Discretely Presented Component Units
Related Organizations
County-Level Courts*
District Courts*
Education
Natural Resources and Recreational Services
Municipal Courts*
Justice of the Peace Courts*
Transportation

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of Texas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
August 31, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.

President

Executive Director

Financial Section

2005

State Auditor's Office
John Keel, CPA
State Auditor

INDEPENDENT AUDITOR'S REPORT

The Honorable Rick Perry, Governor
The Honorable Carole Keeton Strayhorn, Comptroller of Public Accounts
The Honorable David Dewhurst, Lieutenant Governor
The Honorable Tom Craddick, Speaker of the House of Representatives
and
Members of the Legislature, State of Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of and for the year ended August 31, 2005, which collectively comprise the State's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the State Comptroller of Public Accounts. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of the following entities and fund:

- The University of Texas System, which constitutes 73 percent of the assets of Colleges and Universities, a major enterprise fund. The University of Texas System also constitutes 51 percent of the assets of the business-type activities.
- The Department of Transportation Turnpike Authority, a major enterprise fund, which constitutes 5 percent of the assets of the business-type activities.
- The Employees Retirement System of Texas and the Texas Local Governmental Investment Pool (TexPool), which constitute 15 and 7 percent, respectively, of the assets of the aggregate discretely presented component unit and remaining fund information, which primarily consists of fiduciary funds.

The financial statements listed above were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for these entities and TexPool, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the University of Texas System, the Department of Transportation Turnpike Authority, and TexPool were not audited in accordance with *Government Auditing Standards*. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

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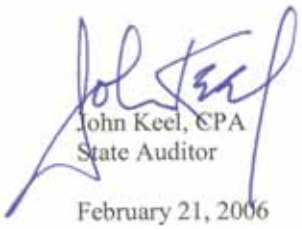
In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the State of Texas as of August 31, 2005, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, the budgetary comparison schedule, and the modified approach to reporting infrastructure assets are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the State's basic financial statements. The combining financial statements, as listed in the Table of Contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. These financial statements are also the responsibility of the State Comptroller of Public Accounts. This supplemental information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

We did not audit the introductory section or the statistical section and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we will issue a separate report on our consideration of the State's internal control over financial reporting and on our tests of the State's compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



John Keel, CPA
State Auditor

February 21, 2006

Management's Discussion and Analysis

2005

Management's Discussion and Analysis

The following is a discussion and analysis of the State of Texas' financial performance, providing an overview of the state's financial position and activities as of and for the fiscal year ended August 31, 2005. Use this section in conjunction with the state's basic financial statements. Comparative data is available and presented for this 2005 report.

Highlights

Government-wide

Net Assets

The assets of the State of Texas exceeded its liabilities by $115.6 billion as of August 31, 2005, an increase of $11.5 billion, or 11.1 percent, from fiscal year 2004.

Fund Level

Governmental Funds

As of August 31, 2005, the state's governmental funds reported a combined ending fund balance of $28.3 billion, an increase of $5.0 billion, or 21.6 percent, from fiscal year 2004. The state reported a positive unreserved fund balance of $2.3 billion in fiscal year 2005.

Proprietary Funds

The proprietary funds reported net assets of $33.9 billion as of August 31, 2005, an increase of $4.0 billion, or 13.4 percent, from fiscal year 2004.

Long-Term Debt

The state's total bonds outstanding increased by $1.8 billion, or 10.4 percent during fiscal year 2005. This amount represents the net difference between net issuances, payments, and refunding of outstanding bond debt. During the fiscal year, the state issued bonds totaling $4.0 billion. More detailed information regarding the government-wide, fund level, and long-term debt activities can be found in the Debt Administration section of this Management's Discussion and Analysis (MD&A).

Overview of the Financial Statements

The reporting focus of this report is on the state as a whole and on the major individual funds. The report presents a more comprehensive view of the state's financial activities and makes it easier to compare the performance of Texas state government to that of other governments.

The Financial Section of this annual report presents the state's financial activities and position in four parts—(1) MD&A (this part), (2) the Basic Financial Statements, (3) Required Supplementary Information other than MD&A, and (4) Other Supplementary Information presenting combining statements. The report also includes statistical and economic data.

The Basic Financial Statements include Government-wide Financial Statements, Fund Financial Statements, and Notes to Financial Statements that provide more detailed information to supplement the Basic Financial Statements.

Reporting on the State as a Whole

The Government-wide Financial Statements are designed to present an overall picture of the financial position of the state. These statements consist of the Statement of Net Assets and the Statement of Activities, which are prepared using the economic resources measurement focus and the accrual basis of accounting. This means that all the current year's revenues and expenses are included, regardless of when cash is received or paid, producing a view of financial position similar to that presented by most private-sector companies.

The Statement of Net Assets combines and consolidates the government's current financial resources with capital

assets and long-term obligations. This statement includes all of the government's assets and liabilities.

Net assets, which are the difference between the state's assets and liabilities, represent one measure of the state's financial health.

Other indicators of the state's financial health include the condition of its roads and highways (infrastructure) and economic trends affecting the state's future tax revenues.

The Statement of Activities focuses on both the gross and net cost of various activities (governmental, business-type, and component unit); these costs are paid by the government's general tax and other revenues. This statement summarizes the cost of providing (or the subsidy provided by) specific government services and includes all current year revenues and expenses.

The Statement of Net Assets and the Statement of Activities divide the state's activities into three types.

Governmental Activities

The state's basic services are reported here, including general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreation, and regulatory services. Taxes, fees, and federal grants finance most of these activities.

Business-Type Activities

Activities for which the state charges a fee to customers to pay most or all of the costs of certain services it provides are reported as business-type activities. The state's colleges and universities are included as business-type activities.

Component Units

Component units are legally separate organizations for which the state is either financially accountable, or the nature and significance of their relationship with the state is such that exclusion would cause the state's financial statements to be misleading or incomplete. These entities are reported in a separate column in the Government-wide Statements. The state includes 14 separate legal entities in the notes to this report.

Reporting on the State's Most Significant Funds

Fund Financial Statements present financial information in a form more familiar to experienced users of governmental financial statements. However, these statements now focus on the most significant funds. Use these statements to find more detailed information about the state's most significant activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The state uses funds to keep track of sources of funding and spending related to specific activities.

Governmental Funds

A majority of the state's activities is reported in governmental funds. Reporting of these funds focuses on how money flows into and out of the funds and amounts remaining at year-end for future spending.

Governmental funds are accounted for using the modified accrual basis of accounting, which measures cash and other assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the state's general governmental operations and the basic services it provides. This information should help determine the level of resources available for the state's programs. The reconciliation following the Fund Financial Statements explains the differences between the government's activities, reported in the Government-wide Statement of Net Assets and the Government-wide Statement of Activities, and the governmental funds. The General Fund, State Highway Fund, and Permanent School Fund are reported as major governmental funds.

Proprietary Funds

When the state charges customers for services it provides, these activities are generally reported in proprietary funds. Services provided to outside (non-governmental) customers are reported in enterprise funds, a component of proprietary funds, and are accounted for using the economic resources measurement focus, and the accrual basis of accounting. These are the same business-type activities

reported in the Government-wide Financial Statements, but are reported here to provide information at the fund level.

Services provided by one program of the state to another are reported in Internal Service Funds, the other component of proprietary funds. The state's Employees Life, Accident, and Health Insurance Benefits Fund is reported as the only internal service fund.

Colleges and Universities, Texas Water Development Board Funds, and the Texas Department of Transportation Turnpike Authority are shown as major proprietary funds.

Reporting on the State's Fiduciary Responsibilities

The state is the trustee, or fiduciary, for seven defined benefit plans, and one defined contribution plan. It is also responsible for other assets that can be used only for trust beneficiaries. All state fiduciary activities are reported in separate Statements of Fiduciary Net Assets and Changes in Fiduciary Net Assets. The activities are reported separately from other financial activities, because the state cannot use the assets to finance state operations. The state's fiduciary responsibilities include ensuring that the assets reported in these funds are used for their intended purposes.

Financial Analysis of the State as a Whole

Net Assets

Total assets of the state on August 31, 2005, were $159.9 billion, an increase of $9.5 billion. Total liabilities as of August 31, 2005, were $44.3 billion, a decrease of $2.0 billion or 4.3 percent. Net assets were affected by a number of factors. Although cash and cash equivalents dropped $3.6 billion from fiscal year 2004, investments increased $5.4 billion. Net capital assets increased $4.0 billion, much from additions to the state's highway system. A significant decline in total liabilities of $2.0 billion was made possible by the repayment of $6.6 billion of Tax and Revenue Anticipation Notes by fiscal year end. The Net Asset balance was $115.6 billion in fiscal year 2005, an increase of $11.5 billion, or 11.1 percent. Of the state's net assets, $60.1 billion were invested in capital assets, net of related debt, while $44.7 billion were restricted by statute or other legal requirements, and were not available to finance day-to-day operations of the state. Unrestricted net assets were $10.8 billion. The state's bonded indebtedness was $19.4 billion, which included new issuances of $4.0 billion in state bonds to finance new construction, housing, water conservation, and other projects. Approximately $2.2 billion in bonded debt was retired or refunded.

Statement of Net Assets
August 31, 2005 and 2004 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
ASSETS						
Assets Other Than Capital Assets	$41,436,328	$40,461,556	$47,764,647	$43,248,765	$ 89,200,975	$ 83,710,321
Capital Assets	57,227,907	54,373,317	13,494,672	12,317,674	70,722,579	66,690,991
Total Assets	98,664,235	94,834,873	61,259,319	55,566,439	159,923,554	150,401,312
LIABILITIES						
Current Liabilities	12,065,292	16,075,362	8,294,032	7,282,649	20,359,324	23,358,011
Non-Current Liabilities	4,921,027	4,598,731	19,055,574	18,387,134	23,976,601	22,985,865
Total Liabilities	16,986,319	20,674,093	27,349,606	25,669,783	44,335,925	46,343,876
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	53,814,542	51,406,782	6,252,639	6,464,385	60,067,181	57,871,167
Restricted	24,110,259	22,212,959	20,580,503	17,627,607	44,690,762	39,840,566
Unrestricted	3,753,115	541,039	7,076,571	5,804,664	10,829,686	6,345,703
Total Net Assets	$81,677,916	$74,160,780	$33,909,713	$29,896,656	$115,587,629	$104,057,436

Changes in Net Assets

The state earned program revenues of $57.0 billion and general revenues of $32.2 billion, for total revenues of $89.2 billion, an increase of $8.2 billion, or 10.2 percent. The major components of this increase are Taxes, which were up by $2.0 billion, and charges for services, which increased $1.9 billion. The largest tax gains occurred in four areas. Sales, motor vehicle, franchise, and oil and gas taxes, showed increases over the prior year of $696.6 million, $231.8 million, $546.4 million, and $490.3 million, respectively.

The expenses of the state were $77.7 billion, an increase of $3.5 billion, or 4.8 percent. The expense fluctuations in Governmental Activities is largely attributable to the health and human service function, primarily with Medicaid and the Children's Health Insurance Program. In the business type activities, college and university expenses were the largest increase, caused primarily by staff growth and merit increases. Other proprietary entities showed relatively stable activities between the prior and current years.

As a result of revenues exceeding expenses, the state's total net assets increased by $11.5 billion. Revenues and expenses of the state's governmental and business-type activities are detailed on the following page.

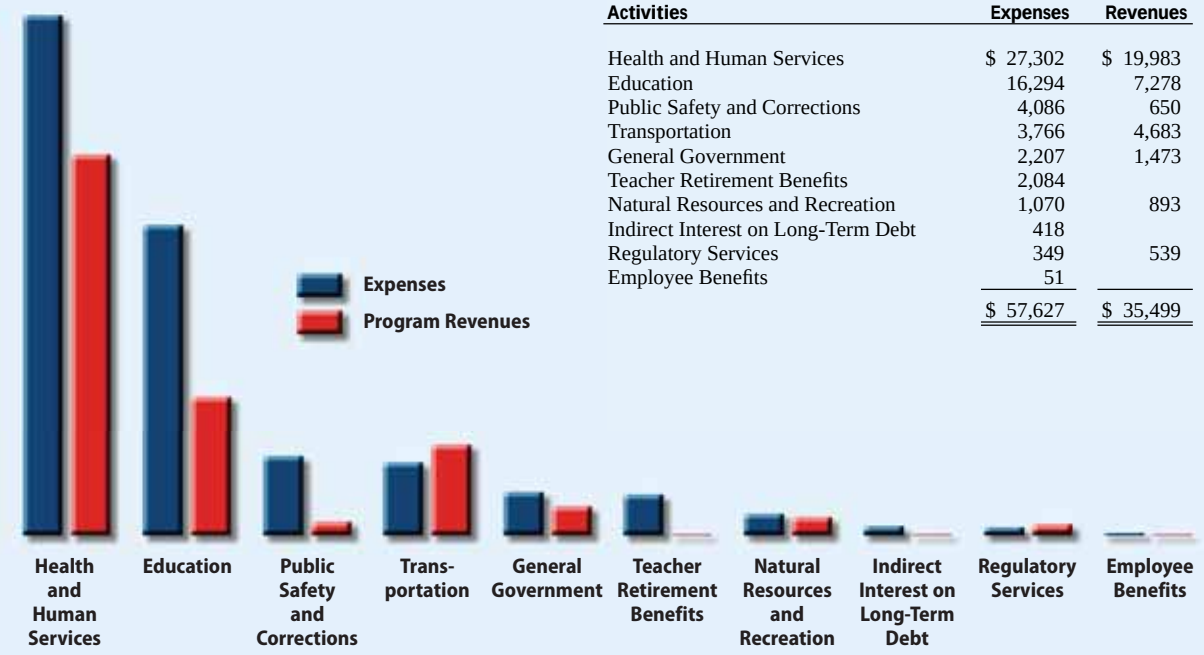
Changes in Net Assets

For the Fiscal Years Ended August 31, 2005 and 2004 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
REVENUES						
Program Revenues:						
Charges for Services	$ 5,578,419	$ 4,923,451	$13,240,994	$12,039,292	$ 18,819,413	$ 16,962,743
Operating Grants and Contributions	26,667,982	24,501,850	8,086,139	6,356,243	34,754,121	30,858,093
Capital Grants and Contributions	3,253,051	2,773,764	211,726	272,997	3,464,777	3,046,761
Total Program Revenues	35,499,452	32,199,065	21,538,859	18,668,532	57,038,311	50,867,597
General Revenues:						
Taxes	29,932,151	27,896,485			29,932,151	27,896,485
Unrestricted Investment Earnings	327,516	211,239	68,423	193,347	395,939	404,586
Federal Jobs and Growth Tax Relief Funds		354,535				354,535
Settlement of Claims	885,975	523,518	20	4	885,995	523,522
Gain on Sale of Capital Assets	8,461	31,189	6,431		14,892	31,189
Other General Revenues	822,652	723,157	126,957	194,474	949,609	917,631
Total General Revenues	31,976,755	29,740,123	201,831	387,825	32,178,586	30,127,948
Total Revenues	67,476,207	61,939,188	21,740,690	19,056,357	89,216,897	80,995,545
EXPENSES						
General Government	2,206,793	2,234,369			2,206,793	2,234,369
Education	16,293,851	16,250,938			16,293,851	16,250,938
Employee Benefits	50,544	60,536			50,544	60,536
Teacher Retirement Benefits	2,083,530	2,269,667			2,083,530	2,269,667
Health and Human Services	27,302,426	25,060,588			27,302,426	25,060,588
Public Safety and Corrections	4,086,450	4,030,120			4,086,450	4,030,120
Transportation	3,766,301	3,476,342			3,766,301	3,476,342
Natural Resources and Recreation	1,070,481	864,508			1,070,481	864,508
Regulatory Services	349,420	375,951			349,420	375,951
Indirect Interest on Long-Term Debt	417,854	338,693			417,854	338,693
Colleges and Universities			14,658,393	13,293,328	14,658,393	13,293,328
Texas Water Development Board			145,252	142,083	145,252	142,083
Veterans Land Board Loan Program			119,455	118,942	119,455	118,942
Texas Department of Transportation Turnpike Authority			346	22,725	346	22,725
Other Business-Type Activities			5,167,402	5,631,394	5,167,402	5,631,394
Total Expenses	57,627,650	54,961,712	20,090,848	19,208,472	77,718,498	74,170,184
Excess (Deficiency) Before Contributions, Extraordinary Items, and Transfers	9,848,557	6,977,476	1,649,842	(152,115)	11,498,399	6,825,361
Capital Contributions	107	944	133	2,715	240	3,659
Contributions to Permanent and Term Endowments			145,919	235,182	145,919	235,182
Extraordinary Item				(13,401)		(13,401)
Transfers	(2,966,197)	(2,867,137)	2,966,197	2,867,137		
Change in Net Assets	6,882,467	4,111,283	4,762,091	2,939,518	11,644,558	7,050,801
Net Assets, Beginning Balance	74,160,780	70,071,934	29,896,656	27,071,780	104,057,436	97,143,714
Restatements	634,669	(22,437)	(749,034)	(114,642)	(114,365)	(137,079)
Net Assets, Beginning Balance, as Restated	74,795,449	70,049,497	29,147,622	26,957,138	103,943,071	97,006,635
Net Assets, Ending Balance	$81,677,916	$74,160,780	$33,909,713	$29,896,656	$115,587,629	$104,057,436

Expenses and Program Revenues
Governmental Activities

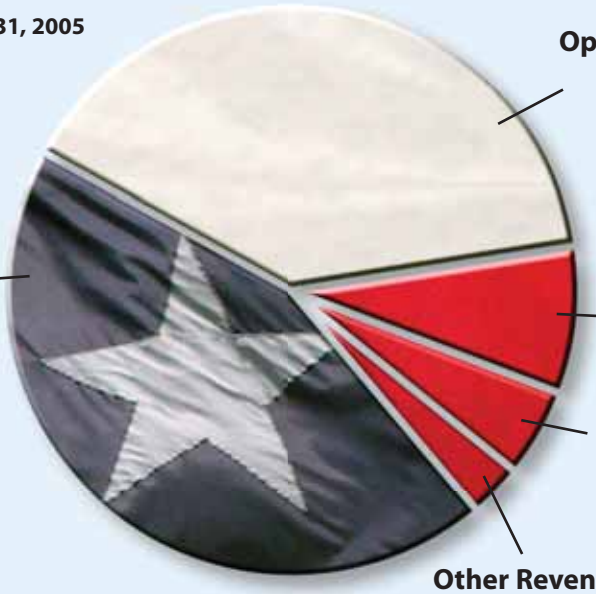
For the Fiscal Year Ended August 31, 2005 (In Millions)



Activities	Expenses	Program Revenues
Health and Human Services	$ 27,302	$ 19,983
Education	16,294	7,278
Public Safety and Corrections	4,086	650
Transportation	3,766	4,683
General Government	2,207	1,473
Teacher Retirement Benefits	2,084	
Natural Resources and Recreation	1,070	893
Indirect Interest on Long-Term Debt	418	
Regulatory Services	349	539
Employee Benefits	51	
	$ 57,627	$ 35,499

Revenue by Source
Governmental Activities

For the Fiscal Year Ended August 31, 2005 (In Billions)*



Operating Grants and Contributions $26.7 or 39.5%

Taxes $29.9 or 44.4%

Charges for Services $5.6 or 8.3%

Capital Grants and Contributions $3.3 or 4.8%

Other Revenues $2.0 or 3.0%

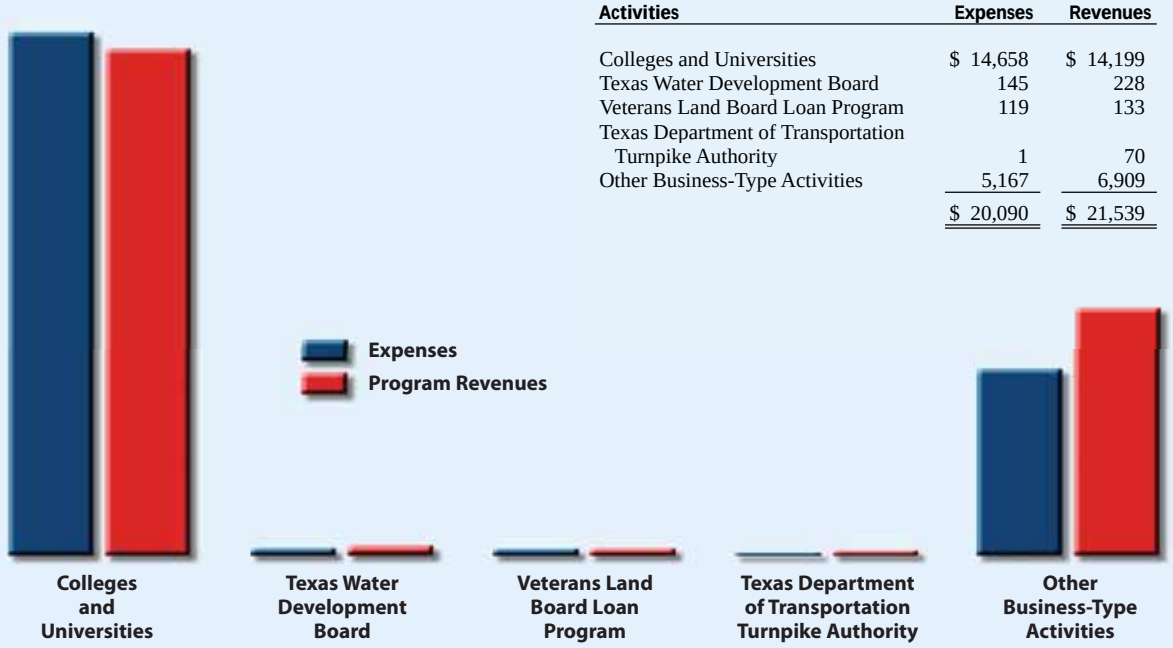
Total = $67.5 Billion

* Totals may not add due to rounding

Expenses and Program Revenues
Business-Type Activities

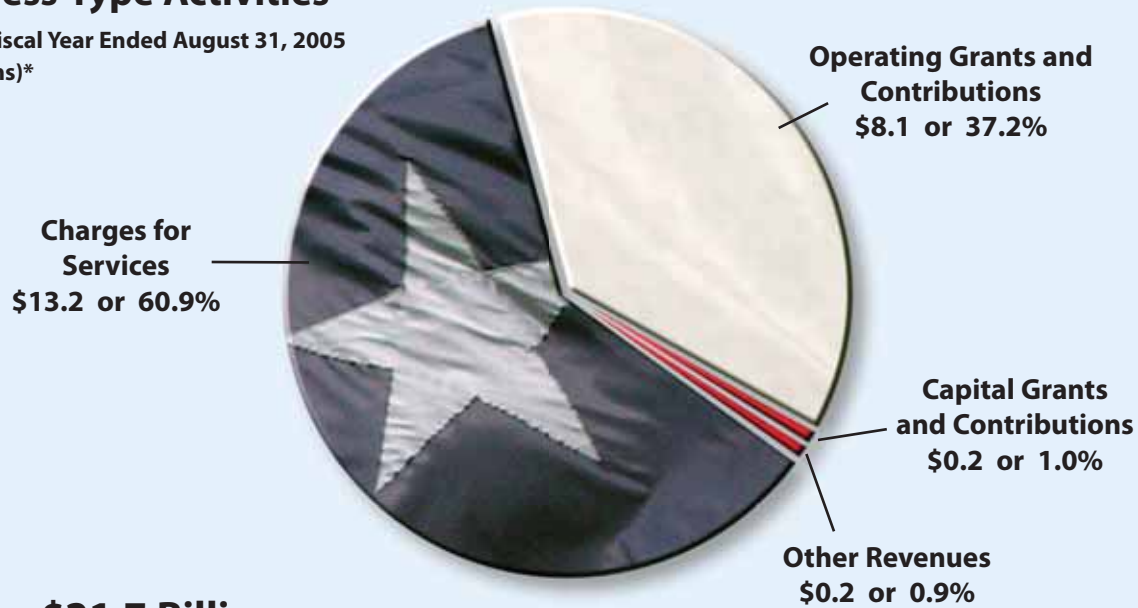
For the Fiscal Year Ended August 31, 2005 (In Millions)

Activities	Expenses	Program Revenues
Colleges and Universities	$ 14,658	$ 14,199
Texas Water Development Board	145	228
Veterans Land Board Loan Program	119	133
Texas Department of Transportation Turnpike Authority	1	70
Other Business-Type Activities	5,167	6,909
	$ 20,090	$ 21,539



Revenue by Source
Business-Type Activities

For the Fiscal Year Ended August 31, 2005 (In Billions)*



Total = $21.7 Billion

* Totals may not add due to rounding

Net Cost (Income) of the State's Governmental Activities

For the Fiscal Year Ended August 31, 2005
(Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
General Government	$ 2,206,793	$ 734,043
Education	16,293,851	9,015,443
Employee Benefits	50,544	50,447
Teacher Retirement Benefits	2,083,530	2,083,520
Health and Human Services	27,302,426	7,318,866
Public Safety and Corrections	4,086,450	3,436,628
Transportation	3,766,301	(916,310)
Natural Resources and Recreation	1,070,481	176,893
Regulatory Services	349,420	(189,186)
Indirect Interest on Long-Term Debt	417,854	417,854
Total	$57,627,650	$22,128,198

Net Cost (Income) of the State's Business-Type Activities

For the Fiscal Year Ended August 31, 2005
(Amounts in Thousands)

	Total Cost of Services	Net Cost (Income) of Services
Colleges and Universities	$14,658,393	$ 459,361
Texas Water Development Board	145,252	(82,107)
Veterans Land Board Loan Program	119,455	(13,829)
Texas Department of Transportation Turnpike Authority	346	(69,994)
Other Business-Type Activities	5,167,402	(1,741,442)
Total	$20,090,848	$ (1,448,011)

Governmental Activities

The governmental activities program revenue is $35.5 billion, including charges for services of $5.6 billion, operating grants and contributions of $26.7 billion, and $3.3 billion reported in capital grants and contributions. The largest increase was for operating grants and contributions, which includes federal and state grants, as well as investment income restricted to specific programs. In addition, charges for services were up by $654.9 million from 2004. Governmental activities expenses were $57.6 billion, resulting in a net cost for governmental services of $22.1 billion, a decrease of $634 million, or 2.8 percent from the prior year.

All functions of governmental activities in the Statement of Activities are in deficit except for the transportation and regulatory services functions that report a surplus. The surplus for transportation is related to the Texas Department of Transportation (TxDOT), which receives a significant number of capital grants from the Federal Highway Administration. Under full accrual, as shown in the transportation function in the Statement of Activities, most of the capital outlay is capitalized versus expensed. Also, TxDOT is using the modified approach for infrastructure and therefore, depreciation expense related to the roadways is not reported on the Statement of Activities. The regulatory services function consists mostly of professional licensing agencies, which are required to set professional license fees at a level sufficient to cover costs of operations.

Business-Type Activities

Business-type activities generated program revenue of $21.5 billion, including charges for services of $13.2 billion, operating grants and contributions of $8.1 billion, and $211.7 million reported in capital grants and contributions. Colleges and universities showed a $3.1 billion increase in program revenue, a 27.7 percent increase. The total expenses for business-type activities were $20.1 billion, resulting in a net gain from the government's business-type activities of $1.4 billion, an increase of $2.0 billion, or 3.7 percent above the prior year. This dramatic shift was due to colleges and universities more closely generating revenues sufficient to cover costs.

Financial Analysis of the State's Funds

Governmental Funds

As of August 31, 2005, governmental funds reported fund balances of $28.3 billion. Of this total amount, $2.3 billion constitutes unreserved fund balances, and $26.0 billion reserved. The general fund reported a positive $285.8 million unreserved balance.

General Fund

The fund balance for the General Fund as of August 31, 2005 was $2.04 billion, an improvement of $2.4 billion from the $376.2 million deficit in fiscal year 2004. Tax collections, which provide the largest source of general revenue for the state, were up 6.6 percent. The majority of the increase is attributable to sales and use taxes paid by businesses and consumers for goods and services purchased within or brought into the state. Federal revenue also increased by $982.7 million, primarily for health and human service programs. Accordingly, health and human services produced the largest expenditure gains over the prior year, a $2.04 billion increase.

State Highway Fund

The fund balance for the State Highway Fund as of August 31, 2005, was $477.4 million, a decrease of $176.5 million from $653.9 million as of August 31, 2004. Increased contractor payments and right of way purchases contributed to this decrease as did an increase in transfers out to the Texas Turnpike Authority Fund of $67.0 million. Expenditures for capitalized contractor payments increased $891.9 million, because the TxDOT was able to accelerate many mobility projects from additional transfers from the Texas Mobility Fund and a $487 million increase in federal funds in fiscal year 2005.

Permanent School Fund

The fund balance for the Permanent School Fund (Fund) as of August 31, 2005, totaled $22.1 billion, an increase of $2.2 billion since August 31, 2004. The favorable stock market increased the fair value of investments from $19.2 billion in fiscal year 2004 to $21.6 billion in fiscal year 2005, an increase of $2.4 billion. The Fund recognized $2.8 billion in interest and investment income (realized and unrealized), an increase of $813.9 million above fiscal year 2004. This increase resulted from a Constitutional Amendment allowing interest and investment income previously recognized in the Available School Fund to now be recognized in the Fund. The amendment also changed the Fund's distribution methodology to a total return based formula rather than the income-based formula. The price increases in oil and gas provided land income of $359.3 million in fiscal year 2005.

Proprietary Funds

Proprietary Funds reported net assets of $33.9 billion as of August 31, 2005, an increase of $4.0 billion from fiscal year 2004. Colleges and Universities, Texas Water Development Board Funds, and the Texas Department of Transportation Turnpike Authority are discussed separately. However, the Texas Workforce Commission Unemployment Trust Fund Accounts realized a net asset increase of $680.1 million. This is primarily due to a decrease in benefits paid as improved economic conditions resulted in a lower unemployment rate. Additionally, there was a $270.0 million decrease in payments with the end of federal extended payments.

The Texas Prepaid Higher Education Tuition Board also reported a significant increase in net assets of $115.1 million. Improvement was partly due to better investment returns and partly a favorable combination of factors that reduced the estimated cost of projected tuition increases.

Colleges and Universities

Colleges and Universities net assets as of August 31, 2005, totaled $29.8 billion, an increase of almost $3.0 billion from August 31, 2004. Favorable market conditions in fiscal year 2005 attributed to a $1.7 billion increase in net investment earnings from 2004. Tuition revenue also increased $325.0 million due to the legislative change that deregulated tuition. This legislation allowed university presidents, in broad consultation with their campuses, to recommend flexible rates of tuition as a means to achieve strategic goals. Plans were adopted that include setting aside at least 20.0 percent of new tuition revenues for financial aid programs as well as a variety of ways that students can take advantage of special discounts in tuition rates. With the removal of the tuition cap, institutions are now phasing in tuition increases. In addition, universities saw an increase in revenue from medical services of $407.9 million as the result of increased charges for medical services. Salaries, wages, and related benefits were up $634.9 million from fiscal year 2004. This is primarily due to normal growth in staffing, merit increases, and promotions.

Texas Water Development Board Funds

The Texas Water Development Board Funds net assets totaled $1.7 billion as of August 31, 2005, an increase of $79.7 million, from $1.6 billion as of August 31, 2004. During fiscal year 2005, federal revenues of $57.9 million and investment income of $167.2 million accounted for virtually all of the additions to the funds. Federal revenue did fall $71.4 million from fiscal year 2004 as several long-term Environmental Protection Agency Clean Water grants were completed in fiscal year 2004. However, interest expense dropped $2.6 million from continued refundings to benefit from lower interest rates. Funds are primarily used to provide financial assistance to political subdivisions for water development, water quality enhancement, and flood control projects.

Texas Department of Transportation Turnpike Authority

Net assets for the Texas Department of Transportation Turnpike Authority totaled $492.9 million as of August 31, 2005, an increase of $156.6 million from August 31, 2004. The largest portion of the Turnpike Authority's total assets (55.5 percent) consists of Right of Way and Construction in Progress. Investments that were made from bond proceeds and contributions from local entities made up 42.0 percent. These investments and contributions will be used to finance the turnpike system. The Turnpike Authority recognized $70.3 million in capital contributions from local governments as of August 31, 2005. An additional $106.0 million in project expenditures was funded from the Texas Department of Transportation's special revenue fund.

Fiduciary Funds

Fiduciary Funds report $130.1 billion in net assets as of August 31, 2005, an increase of $13.2 billion from $116.9 billion in fiscal year 2004.

Pension and Other Employee Benefit Trust Funds

Total net assets for Pension and Other Employee Benefit Trust Funds were $115.7 billion, an increase of $11.6 billion from the $104.1 billion in fiscal year 2004. The majority of plan assets are held as investments for the pension funds. The overall financial condition of the pension fund retirement plans improved during fiscal year 2005 primarily due to an increase in net investment income. The return for investments for the state's two largest pension systems, the Teacher Retirement System and the State Employees Retirement System, was 14.4% and 12.7%, respectively.

External Investment Trust Funds

The External Investment Trust Funds reported total net assets of $11.7 billion in fiscal year 2005, an increase of $1.5 billion from the $10.2 billion in fiscal year 2004. The increase is primarily attributable to an increase of participant investments in the Texas Government Investment Pool (TexPool) Trust Fund, and increased earnings from higher interest rates.

Private-Purpose Trust Funds

Total net assets for Private-Purpose Trust Funds were $2.7 billion in fiscal year 2005, an increase of $104.0 million from the $2.6 billion in fiscal year 2004. A balance of $238.3 million was moved to Pension Trust Funds from the Retired School Employees Group Insurance Trust. This lessened an otherwise increase of $342.3 million. Increases were a result of improved investment performance, higher contribution rates from the state and members, premium increases, supplemental funding from the state, and newly required contributions from reporting entities. The largest increase was attributable to the Tobacco Settlement Permanent Trust (Political Subdivisions) that reported an increase of $227.3 million.

Budgetary Highlights

Variances for the General Fund

The differences from original and final revenue budgets are due to an overall improved economic picture from the original estimate. The amount of federal funds budgeted in the final column of $20.9 billion were higher than the original estimate of $17.5 billion. Projected increases in federal receipts are usually attributed to increased spending in the health and human services areas. Significant federal increases were anticipated in conjunction with increased

state spending for Medicaid and the Children's Health Insurance Program.

Another increase occurred with tax revenues, which was partly attributed to improved consumer confidence and increased consumer spending, resulting in higher sales and other related tax revenues. Oil and gas tax collections were also expected to rise from record setting prices for those natural resources.

Actual revenue was lower than final budgeted revenues by $632.5 million. Taxes, however, were higher than final budget by $920.1 million, primarily due to sales and use tax and oil and gas production taxes. The 2005 increase in sales tax collections resulted from upturns in several major sectors of the Texas economy such as retail, communications, and wholesale trade. Continued threats of foreign supply disruptions, existing tight supplies, and strong demand resulted in fiscal year 2005 reaching near record setting taxable prices for crude oil and natural gas. Increase in oil and gas tax collections are a direct result of higher taxable prices.

The tax surplus was offset by federal funds that came in $1.2 billion less than budgeted. The largest portion is attributable to budgeted receipts for the health and human services area that were not received at the end of fiscal year 2005. Various factors, such as caseload levels, impact the actual receipt of Medicaid matched funds.

Actual expenditures in the education function were less than budgeted expenditures by $265.2 million.

Capital Assets and Debt Administration

Capital Assets

As of August 31, 2005, the state had $70.7 billion in net capital assets, of which $44.4 billion was infrastructure. This represents an increase of $4.0 billion in net capital assets, or 6.0 percent, from fiscal year 2004. The state's capital assets include land and land improvements, infrastructure, construction in progress, buildings and building improvements, facilities and other improvements, furniture and equipment, vehicles, boats, and aircraft, and other capital assets. Details of capital assets are shown in Note 2.

Infrastructure Assets

The value of the state's infrastructure assets is included in the governmental activities column of the Government-wide Statements.

The state accounts for its system of roads and highways using the modified approach allowed by GASB Statement No. 34. The Texas Department of Transportation has developed a system of management, the Texas Maintenance Assessment Program (TxMAP), which is designed to maintain the service delivery potential of the state's roads and highways to near perpetuity.

The state's policy is to maintain its interstate highways at a condition level of 80 percent and its non-interstate highways (farm-to-market and other road systems) at a condition

Capital Assets – Net of Depreciation
August 31, 2005 and 2004 (Amounts In Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
Land and Land Improvements	$ 6,303,668	$ 5,729,395	$ 1,036,932	$ 831,665	$ 7,340,600	$ 6,561,060
Infrastructure	44,150,636	42,354,950	261,487	244,266	44,412,123	42,599,216
Construction in Progress	3,195,073	2,661,772	3,116,699	3,099,008	6,311,772	5,760,780
Buildings and Building Improvements	2,657,240	2,702,403	6,737,779	5,215,725	9,395,019	7,918,128
Facilities and Other Improvements	82,986	76,786	464,352	443,332	547,338	520,118
Furniture and Equipment	258,415	269,683	1,100,189	973,197	1,358,604	1,242,880
Vehicles, Boats, and Aircraft	349,751	341,423	49,089	49,586	398,840	391,009
Other Capital Assets	230,138	236,905	728,145	1,460,895	958,283	1,697,800
Total Capital Assets	$57,227,907	$54,373,317	$13,494,672	$12,317,674	$70,722,579	$66,690,991

Outstanding Bonded Debt

August 31, 2005 and 2004 (Amounts in Thousands)

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2005	2004	2005	2004	2005	2004
General Obligation Bonds Payable	$ 3,972,020	$ 3,115,885	$ 2,814,521	$ 2,719,415	$ 6,786,541	$ 5,835,300
Revenue Bonds Payable	632,162	678,584	11,748,802	10,844,329	12,380,964	11,522,913
Total Bonds Payable	$ 4,604,182	$ 3,794,469	$14,563,323	$13,563,744	$19,167,505	$17,358,213

level of 75 percent. The most recent assessment found that the state's highways were within these parameters, with the condition of interstate highways at 82.1 percent and non-interstate highways at a condition of 77.9 percent. This reflects a condition level improvement of one percent for interstate highways and 0.6 percent for non-interstate.

In fiscal year 2005, the estimated maintenance expenditures for interstate highways were $314.0 million, compared to $427.1 million actual maintenance expenditures. The estimated verses actual maintenance expenditures for non-interstate highways were $1.59 billion and $1.6 billion, respectively. Actual expenditures were 36.0 percent more than estimated for interstate highways and 1.0 percent more than estimated for non-interstate highways.

Additional information on the state's road and highway infrastructure is presented in the Financial Section's Required Supplementary Information other than MD&A.

Debt Administration

The State of Texas issues both General Obligation Bonds and Revenue Bonds. Each series of revenue bonds is backed by the pledged revenue source and restricted funds specified in the bond resolution. Most revenue bonds are designed to be self-supporting from a primary revenue source related to the program financed.

The state's general obligation bond issues are rated Aa1 by Moody's Investors Service and AA by Standard & Poor's Corporation, as of August 31, 2005. During fiscal year 2005, Texas' state agencies and universities issued $4.0 billion in state bonds to finance new construction, housing, water conservation and treatment, and other projects. General obligation debt accounted for $1.4 billion of state bonds issued in fiscal year 2005. This debt, which can only be authorized by a constitutional amendment, carries the full faith and credit of the state. The remaining $2.6 billion is due to new issuances of revenue bonds, which are serviced by the revenue flows of individual entity projects. Bonds retired during the year were composed of $308.1 million in general obligation bonds and $626.4 million in revenue bonds. Also, $134.9 million in general obligation bonds and $1.1 billion in revenue bonds were refunded. The total outstanding general obligation debt of the state after new issuances, retirements, and refundings as of August 31, 2005 was $6.8 billion. This represents an increase of $951.2 million, or 16.3 percent, from fiscal year 2004. An additional $3.9 billion of general obligation bonds have been authorized but have not been issued. Total revenue bonds outstanding were $12.4 billion, which is an increase of $858.1 million, or 7.4 percent, from fiscal year 2004. Note 5 shows the details on the state's long-term liabilities and Note 6 provides detail information on the state's bonds.

Cash Management

Funds deposited in the State Treasury are pooled for investment purposes. The Treasury is authorized to invest in NOW accounts, time deposits, obligations of the United States, obligations of various federal credit organizations, repurchase agreements, reverse repurchase agreements, bankers' acceptances, commercial paper, and mutual funds.

During fiscal year 2005, the average investment portfolio consisted of the following (see next page).

Average Investment Portfolio*

For the Fiscal Year Ended August 31, 2005 (Amounts in Millions)

Investment Type	Percent of Total	Average Amount Invested	Average Interest Rate
NOW Accounts	0.2 %	19	0.56 %
Time Deposits	0.2	18	2.03
BidTX	4.0	504	2.63
Repurchase Agreements	30.8	3,877	2.60
U.S. Treasury and Agency Securities	43.2	5,439	2.91
U.S. Treasury (Lottery)	5.7	717	**
Commercial Paper	18.5	2,329	2.56
Political Subdivisions	0.0	2	1.44
Mutual Funds	2.6	332	2.39
Subtotal	105.2	13,237	
Reverse Repurchase Agreements	(5.2)	(646)	2.69
Total	100.0 %	12,591	3.18

* The above numbers include all funds included in the State Treasury.

** The yield for the Lottery is not included in the average yield for the state since the investments are long-term and are held for lottery prize winners.

Economic Condition and Outlook

Both Texas and the nation have completed two years of employment growth following more than two years of employment losses. For calendar year 2005, Texas' average annual nonfarm employment grew by 1.3 percent (up 136,400 jobs) over the 2004 nonfarm job count, while the nation added 2,066,000 nonfarm jobs, or 1.6 percent. Texas' job change is about the same as it was in 2004, when the state experienced a year-to-year gain of 1.2 percent of its jobs. The improving economy was reflected in another 0.6 percentage points shaved off the unemployment rate, which fell from 5.9 percent in November 2004 to 5.3 percent in November 2005. After reaching a low of 3.9 percent in 2000, the rate rose for three consecutive years before improving in 2004. The nation's average unemployment rate also improved in 2005, falling from an average of 5.5 percent to 5.1 percent, but the gap between the Texas and U.S. rates narrowed.

Texas' real gross state product advanced by an estimated 3.8 percent in 2005, while personal income increased by an estimated 7.6 percent. The personal income growth rate, expressed in nominal dollars, substantially exceeded the 3.4 percent inflation rate for the year. Real per capita personal income in the state rose 5.9 percent during the year.

The state revenue outlook has improved. The fiscal 2005 ending balance in general revenue-related funds was $3.3 billion. The 2006-2007 Biennial Revenue Estimate, released in January 2005, indicated revenue available for general purpose spending of $64.7 billion for the biennium. The state's largest source of tax revenue is the sales tax. Sales tax collections declined in both 2002 and 2003, but were up 7.9 percent during fiscal year 2004, and another 5.8 percent during 2005. The Comptroller forecasts sales tax growth of 3.6 percent in fiscal year 2006. The Texas economy is expected to be relatively healthy, with real gross state product growth in the range of 3.5 to 4.0 percent each year in both 2006 and 2007.

Contacting the State's Financial Management

This financial report is designed to provide the state's citizens, taxpayers, customers, investors, and creditors with a general overview of the state's finances and to demonstrate the state's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Financial Reporting Section of the Texas Comptroller of Public Accounts at 111 E. 17th Street, Austin, Texas 78774.

Basic Financial Statements

2005

State of Texas
Statement of Net Assets
August 31, 2005 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 6,596,674	$ 4,105,584	$ 10,702,258	$ 123,784
Short Term Investments	382,584	956,634	1,339,218	131,944
Securities Lending Collateral	3,594,408	1,975,160	5,569,568	
Restricted:				
Cash and Cash Equivalents	324,179	2,891,883	3,216,062	818
Short Term Investments	1,366	711,882	713,248	42,436
Loans and Contracts	69,669	64,056	133,725	66
Receivables:				
Taxes (Note 24)	1,888,689		1,888,689	
Federal	1,932,385	291,684	2,224,069	28,375
Other Intergovernmental	486,228	49,373	535,601	982
Accounts	656,270	713,936	1,370,206	14,345
Interest and Dividends	126,342	142,519	268,861	6,020
Gifts		135,459	135,459	
Investment Trades	1,668	436,986	438,654	
Other	24,784	808,094	832,878	5,377
From Fiduciary Funds	134,432		134,432	
Due From Primary Government (Note 12)				286
Due From Component Units (Note 12)	15	10	25	
Inventories	236,490	134,260	370,750	710
Prepaid Items	1,241	81,468	82,709	1,492
Loans and Contracts	55,251	279,358	334,609	17,165
Other Current Assets	33	124,554	124,587	1,070
Total Current Assets	16,512,708	13,902,900	30,415,608	374,870
Non-Current Assets:				
Restricted:				
Cash and Cash Equivalents		637,862	637,862	154
Short Term Investments		339,919	339,919	
Investments		22,790,468	22,790,468	39,775
Receivables	187	265,099	265,286	
Loans and Contracts	662,824	2,987,588	3,650,412	3,620
Other	126,085	5,321	131,406	
Internal Balances (Note 12)	18,772	(18,772)		
Loans and Contracts	477,260	3,052,361	3,529,621	57,965
Investments	22,915,923	3,555,432	26,471,355	475,496
Receivables:				
Taxes (Note 24)	339,725		339,725	
Federal	22,786		22,786	
Other	46,504		46,504	
Gifts		143,278	143,278	
Capital Assets: (Note 2)				
Capital Assets - Non-Depreciable	46,830,216	4,460,324	51,290,540	4,627
Capital Assets - Depreciable	22,281,716	18,213,087	40,494,803	89,639
Accumulated Depreciation	(11,884,025)	(9,178,739)	(21,062,764)	(43,022)
Assets Held in Trust		5,112	5,112	
Net Pension Asset (Note 9)	274,474		274,474	
Other Non-Current Assets	39,080	98,079	137,159	8,919
Total Non-Current Assets	82,151,527	47,356,419	129,507,946	637,173
Total Assets	98,664,235	61,259,319	159,923,554	1,012,043

Concluded on the following page

State of Texas
Statement of Net Assets (concluded)
August 31, 2005 (Amounts in Thousands)

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	$ 3,609,384	$ 1,268,240	$ 4,877,624	$ 12,127
Payroll	489,678	208,478	698,156	27
Other Intergovernmental	1,303,294	13,378	1,316,672	
Federal	18,803	69,827	88,630	14,544
Investment Trades	2,736	864,842	867,578	
Interest	230,303	62,182	292,485	823
To Fiduciary Funds	4,806		4,806	
Internal Balances (Note 12)	387,440	(387,440)		
Due To Primary Government (Note 12)				25
Due To Component Units (Note 12)	286		286	
Deferred Revenue	843,097	1,741,556	2,584,653	20,916
Obligations/Reverse Repurchase Agreement	123,681		123,681	
Obligations/Securities Lending	3,594,408	1,975,160	5,569,568	
Short Term Debt (Note 4)	62,000		62,000	
Claims and Judgments (Note 5)	78,845	13,894	92,739	
Capital Lease Obligations (Note 5, 7)	30,647	2,361	33,008	168
Employees' Compensable Leave (Note 5)	402,451	220,152	622,603	3,106
Notes and Loans Payable (Note 5)	19,680	624,660	644,340	51,752
General Obligation Bonds Payable (Note 5, 6)	282,650	93,072	375,722	
Revenue Bonds Payable (Note 5, 6)	86,311	599,562	685,873	23,772
Liabilities Payable From Restricted Assets (Note 5)		632,099	632,099	
Funds Held for Others		99,344	99,344	
Other Current Liabilities	494,792	192,665	687,457	12,860
Total Current Liabilities	12,065,292	8,294,032	20,359,324	140,120
Non-Current Liabilities:				
Claims and Judgments (Note 5)	142,408	31,700	174,108	
Capital Lease Obligations (Note 5, 7)	13,379	11,308	24,687	88
Employees' Compensable Leave (Note 5)	201,418	287,249	488,667	1,185
Notes and Loans Payable (Note 5)	242,419	989,545	1,231,964	143,515
General Obligation Bonds Payable (Note 5, 6)	3,689,370	2,721,449	6,410,819	
Revenue Bonds Payable (Note 5, 6)	545,851	11,149,240	11,695,091	185,823
Liabilities Payable From Restricted Assets (Note 5)		3,067,473	3,067,473	210,566
Assets Held for Others		387,551	387,551	
Net Pension Obligation (Note 9)	86,182		86,182	
Other Non-Current Liabilities		410,059	410,059	23,714
Total Non-Current Liabilities	4,921,027	19,055,574	23,976,601	564,891
Total Liabilities	16,986,319	27,349,606	44,335,925	705,011
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	53,814,542	6,252,639	60,067,181	26,975
Restricted for:				
Education	764,896	1,693,205	2,458,101	22,179
Highway Construction	628,226		628,226	
Debt Service	213,166	290,035	503,201	
Capital Projects	151,073	83,040	234,113	
Veterans Land Board Housing Programs		640,880	640,880	
Unemployment Trust Fund		1,600,677	1,600,677	
Funds Held as Permanent Investments:				
Nonexpendable	22,081,497	15,934,210	38,015,707	
Expendable		319,029	319,029	
Other	271,401	19,427	290,828	3,686
Unrestricted	3,753,115	7,076,571	10,829,686	254,192
Total Net Assets	$ 81,677,916	$ 33,909,713	$115,587,629	$ 307,032

The accompanying notes to the financial statements are an integral part of this statement.

State of Texas
Statement of Activities
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Primary Government				
Governmental Activities:				
General Government	$ 2,206,793	$ 802,588	$ 670,162	$
Education	16,293,851	594,702	6,683,706	
Employee Benefits	50,544	97		
Teacher Retirement Benefits	2,083,530	10		
Health and Human Services	27,302,426	1,124,402	18,859,027	131
Public Safety and Corrections	4,086,450	463,097	186,725	
Transportation	3,766,301	1,342,073	87,712	3,252,826
Natural Resources and Recreation	1,070,481	716,981	176,513	94
Regulatory Services	349,420	534,469	4,137	
Indirect Interest on Long-Term Debt	417,854			
Total Governmental Activities	57,627,650	5,578,419	26,667,982	3,253,051
Business-Type Activities:				
Colleges and Universities	14,658,393	6,689,395	7,368,212	141,425
Texas Water Development Board	145,252	2,217	225,142	
Veterans Land Board Loan Program	119,455	19,889	113,348	47
Texas Department of Transportation Turnpike Authority	346	14	72	70,254
Other Business-Type Activities	5,167,402	6,529,479	379,365	
Total Business-Type Activities	20,090,848	13,240,994	8,086,139	211,726
Total Primary Government	$77,718,498	$18,819,413	$34,754,121	$ 3,464,777
Component Units				
Component Units	$ 481,696	$ 347,892	$ 196,863	$ 0
Total Component Units	$ 481,696	$ 347,892	$ 196,863	$ 0

General Revenues
Taxes:
Sales and Use
Motor Vehicle and Manufactured Housing
Motor Fuels
Franchise
Oil and Natural Gas Production
Insurance Occupation
Cigarette and Tobacco
Other
Unrestricted Investment Earnings
Settlement of Claims
Gain on Sale of Capital Assets
Other General Revenues
Capital Contributions
Contributions to Permanent and Term Endowments
Transfers - Internal Activities (Note 12)
Total General Revenues, Contributions, and Transfers
Change in Net Assets
Net Assets, September 1, 2004
Restatements (Note 14)
Net Assets, September 1, 2004, as Restated
Net Assets, August 31, 2005

The accompanying notes to the financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (734,043)	$	$ (734,043)	$
(9,015,443)		(9,015,443)	
(50,447)		(50,447)	
(2,083,520)		(2,083,520)	
(7,318,866)		(7,318,866)	
(3,436,628)		(3,436,628)	
916,310		916,310	
(176,893)		(176,893)	
189,186		189,186	
(417,854)		(417,854)	
(22,128,198)	0	(22,128,198)	0
	(459,361)	(459,361)	
	82,107	82,107	
	13,829	13,829	
	69,994	69,994	
	1,741,442	1,741,442	
0	1,448,011	1,448,011	0
(22,128,198)	1,448,011	(20,680,187)	0
			63,059
0	0	0	63,059
16,260,689		16,260,689	
2,897,031		2,897,031	
2,915,680		2,915,680	
2,203,578		2,203,578	
2,409,276		2,409,276	
1,213,627		1,213,627	
596,569		596,569	
1,435,701		1,435,701	
327,516	68,423	395,939	(3,643)
885,975	20	885,995	
8,461	6,431	14,892	
822,652	126,957	949,609	25,257
107	133	240	
	145,919	145,919	
(2,966,197)	2,966,197		
29,010,665	3,314,080	32,324,745	21,614
6,882,467	4,762,091	11,644,558	84,673
74,160,780	29,896,656	104,057,436	285,631
634,669	(749,034)	(114,365)	(63,272)
74,795,449	29,147,622	103,943,071	222,359
$ 81,677,916	$33,909,713	$115,587,629	$ 307,032

State of Texas
Balance Sheet – Governmental Funds
August 31, 2005 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
ASSETS					
Cash and Cash Equivalents	$ 4,290,113	$ 487,392	$ 410,761	$ 1,371,427	$ 6,559,693
Short Term Investments	123,861		9,480	112,582	245,923
Securities Lending Collateral			3,494,514	44,216	3,538,730
Receivables:					
Accounts	461,783	24,755	76,310	3,905	566,753
Taxes (Note 24)	2,228,414				2,228,414
Federal	1,465,065	487,709		2,397	1,955,171
Investment Trades				1,668	1,668
Other Intergovernmental	312,502	173,726			486,228
Interest and Dividends	9,134	10,542	85,404	21,160	126,240
Other (Note 1)	69,898		1,392		71,290
Due From Other Funds (Note 12)	156,817	199,961	23,946	90,374	471,098
Due From Component Units (Note 12)	15				15
Interfund Receivable (Note 12)	21,652			371	22,023
Inventories	153,390	82,512		588	236,490
Prepaid Items	1,110		131		1,241
Investments			21,578,565	1,022,480	22,601,045
Loans and Contracts	79,461	235,295	1,483	216,273	532,512
Other Assets		31,079		8,035	39,114
Restricted:					
Cash and Cash Equivalents	3,458			320,722	324,180
Short Term Investments				1,366	1,366
Receivables	186			1	187
Loans and Contracts	100,350			632,143	732,493
Other Assets	529			125,555	126,084
Total Assets	$ 9,477,738	$ 1,732,971	$25,681,986	$ 3,975,263	$ 40,867,958
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 2,343,707	$ 635,263	$ 19,210	$ 167,828	$ 3,166,008
Investment Trades				2,736	2,736
Other Intergovernmental	1,303,294				1,303,294
Payroll	394,693	86,831	1,143	7,011	489,678
Federal	18,727			76	18,803
Interest	24,200			10,751	34,951
Due To Other Funds (Note 12)	669,755	1,274	24,151	33,152	728,332
Due To Component Units (Note 12)	286				286
Interfund Payable (Note 12)	30			3,148	3,178
Deferred Revenues	2,269,444	270,446	43,177	614	2,583,681
Obligations/Reverse Repurchase Agreements	123,681				123,681
Obligations/Securities Lending			3,494,514	44,216	3,538,730
Other Current Liabilities	230,132	261,730		2,930	494,792
Short Term Debt (Note 4)	62,000				62,000
Total Liabilities	7,439,949	1,255,544	3,582,195	272,462	12,550,150
Fund Balances/(Deficits):					
Reserved (Note 13)	1,752,033	431,031	22,099,791	1,743,780	26,026,635
Unreserved (Note 13):					
General	285,756				285,756
Special Revenue		46,396		1,413,517	1,459,913
Capital Projects				(281)	(281)
Permanent				545,785	545,785
Total Fund Balances	2,037,789	477,427	22,099,791	3,702,801	28,317,808
Total Liabilities and Fund Balances	$ 9,477,738	$ 1,732,971	$25,681,986	$ 3,975,263	$ 40,867,958

The accompanying notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

August 31, 2005 (Amounts in Thousands)

Total Fund Balance – Governmental Funds		$28,317,808
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets less accumulated depreciation are included in the Statement of Net Assets (Note 2):		
Capital Assets - Non-Depreciable	$ 46,830,216	
Capital Assets - Depreciable	22,281,716	
Accumulated Depreciation	(11,884,025)	
		57,227,907
Certain pension funds have been funded in excess of the annual required contributions, creating a year-end asset. The asset is not a current available resource and is not reported in the funds. (Note 9)		274,474
Some of the state's revenues will be collected after year-end but are not available soon enough to pay current year's expenditures and therefore, are deferred in the funds.		1,741,437
Long-Term liabilities applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the Statement of Net Assets. (Note 5 and Note 9)		
Claims and Judgments	(221,253)	
Capital Lease Obligations	(44,026)	
Employees' Compensable Leave	(603,869)	
Notes and Loans Payable	(262,099)	
General Obligation Bonds Payable	(3,972,020)	
Revenue Bonds Payable	(632,162)	
Net Pension Obligation	(86,182)	
		(5,821,611) *
* Current Portion = $900,584 and Non-Current Portion = $4,921,027		
Interest payable applicable to the state's governmental activities are not due and payable in the current period and accordingly are not reported in the funds. However these liabilities are included in the Statement of Net Assets.		(195,352)
The internal service fund is used by management to charge the costs of Employees Life, Accident, and Health Insurance Benefits Fund to individual funds. Since governmental activities are the predominant activities of internal service funds, the assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		133,253
Net Assets of Governmental Activities		$81,677,916

State of Texas
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	General	State Highway Fund	Permanent School Fund	Nonmajor Funds	Totals
REVENUES					
Taxes	$29,796,657	$ 33,004	$	$	$29,829,661
Federal	22,444,735	3,362,540		43,018	25,850,293
Licenses, Fees, and Permits	2,338,916	935,077		316,318	3,590,311
Interest and Other Investment Income	173,123	35,251	2,828,879	280,262	3,317,515
Land Income	9,124	3,096	359,296	172,402	543,918
Settlement of Claims	864,570	18,338	350	73	883,331
Sales of Goods and Services	1,135,839	299,549		9,244	1,444,632
Other	1,904,164	3,002		11,606	1,918,772
Total Revenues	58,667,128	4,689,857	3,188,525	832,923	67,378,433
EXPENDITURES					
Current:					
General Government	1,919,784	10,946	92,609	127,893	2,151,232
Education	14,497,772			1,705,771	16,203,543
Employee Benefits	552			10,988	11,540
Teacher Retirement Benefits				24	24
Health and Human Services	27,054,817			136,830	27,191,647
Public Safety and Corrections	3,390,660	486,947		74,886	3,952,493
Transportation	831	3,217,127		27,958	3,245,916
Natural Resources and Recreation	783,514			255,437	1,038,951
Regulatory Services	269,698			74,804	344,502
Capital Outlay	100,223	3,539,634	204	94,784	3,734,845
Debt Service:					
Principal	3,750		80	301,693	305,523
Interest	198,000			176,545	374,545
Other Payments for Refunding				1,595	1,595
Other Financing Fees				511	511
Total Expenditures	48,219,601	7,254,654	92,893	2,989,719	58,556,867
Excess (Deficiency) of Revenues Over (Under) Expenditures	10,447,527	(2,564,797)	3,095,632	(2,156,796)	8,821,566
OTHER FINANCING SOURCES (USES)					
Transfer In (Note 12)	2,134,587	2,533,827		2,819,072	7,487,486
Transfer Out (Note 12)	(9,857,213)	(156,092)	(879,981)	(1,354,357)	(12,247,643)
Bonds and Notes Issued				1,242,000	1,242,000
Bond Proceeds for Advance Refunding				207,980	207,980
Payment to Escrow for Advance Refunding				(207,980)	(207,980)
Sale of Capital Assets	24,520	10,582		2,010	37,112
Increase in Obligations Under Capital Leases	69		4	1	74
Total Other Financing Sources (Uses)	(7,698,037)	2,388,317	(879,977)	2,708,726	(3,480,971)
Net Change in Fund Balances	2,749,490	(176,480)	2,215,655	551,930	5,340,595
Fund Balances, September 1, 2004	(376,233)	653,907	19,900,935	3,111,709	23,290,318
Restatements (Note 14)	(335,468)		(16,799)	39,162	(313,105)
Fund Balances, September 1, 2004, as Restated	(711,701)	653,907	19,884,136	3,150,871	22,977,213
Fund Balances, August 31, 2005	$ 2,037,789	$ 477,427	$22,099,791	$ 3,702,801	$28,317,808

The accompanying notes to the financial statements are an integral part of this statement.

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities

For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

Net Change in Fund Balances		$5,340,595
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The amount by which capital outlay exceeds depreciation in the current period is:		
Capital Outlay	$3,734,845	
Depreciation Expense	(805,263)	
		2,929,582
The effect of various miscellaneous transactions involving capital assets (i.e. sales and trade-ins) is to decrease net assets.		(28,651)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		71,016
The internal service fund is used by management to charge the costs of the Employees Life, Accident, and Health Insurance Benefits Fund to individual funds. The adjustments for internal service fund "close" the fund by allocating these amounts to participating governmental activities.		37,093
The issuance of long-term debt and increase in obligations under capital leases provide current financial resources to governmental funds, while the repayment of the principal of long-term debt and capital leases consumes the current financial resources of governmental funds.		
Bonds and Notes Issued	(1,449,980)	
Increase in Obligations under Capital Leases	(74)	
Repayment of Bond and Capital Lease Principal	513,503	
		(936,551)
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore, are not reported as expenditures in governmental funds.		(509,522)
Resource flows between fiduciary funds, discrete component units, and governmental funds are converted to revenues or expenses on the Statement of Activities. Transfers of capital assets have not been reported in the Governmental Funds.		
Capital Asset Transfers	(21,095)	
Change in Transfers	1,815,056	
Increase in Revenues	1,097	
Increase in Expenses	(1,816,153)	
		(21,095)
Change in Net Assets of Governmental Activities		$6,882,467

State of Texas
Statement of Net Assets
Proprietary Funds
August 31, 2005 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds*	Totals	Governmental Activities – Internal Service Fund**
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 3,301,225	$ 239,157	$	$ 565,202	$ 4,105,584	$ 36,981
Short Term Investments	361,479	595,155			956,634	136,661
Securities Lending Collateral	1,660,269			314,891	1,975,160	55,677
Restricted:						
Cash and Cash Equivalents	843,618			2,048,265	2,891,883	
Short Term Investments	252,809		84,981	374,092	711,882	
Loans and Contracts	7,727			56,329	64,056	
Receivables:						
Federal	280,516	4,437		6,731	291,684	
Other Intergovernmental	49,373				49,373	
Accounts	346,738	682	919	365,597	713,936	89,517
Interest and Dividends	57,172	35,396	6,378	43,573	142,519	102
Gifts	135,459				135,459	
Investment Trades	333,495			103,491	436,986	
Other (Note 1)	807,400			694	808,094	
Due From Other Funds (Note 12)	381,543		221	33,412	415,176	192
Due From Component Units (Note 12)	10				10	
Interfund Receivable (Note 12)	4,310			30	4,340	
Inventories	119,049			15,211	134,260	
Prepaid Items	72,049			9,419	81,468	
Loans and Contracts	78,035	97,135		104,188	279,358	
Other Current Assets	123,369			1,185	124,554	
Total Current Assets	9,215,645	971,962	92,499	4,042,310	14,322,416	319,130
Non-Current Assets:						
Restricted:						
Cash and Cash Equivalents	75,815		556,217	5,830	637,862	
Short Term Investments	10,288		329,631		339,919	
Investments	18,406,140		279,031	4,105,297	22,790,468	
Receivables	8,228			256,871	265,099	
Loans and Contracts	120,222			2,867,366	2,987,588	
Other	2,838			2,483	5,321	
Loans and Contracts	30,581	3,016,951		4,829	3,052,361	
Investments	3,555,432				3,555,432	314,877
Interfund Receivable	304,625				304,625	
Gifts	143,278				143,278	
Capital Assets: (Note 2)						
Non-Depreciable	2,820,148		1,635,132	5,044	4,460,324	
Depreciable	18,128,975			84,112	18,213,087	
Accumulated Depreciation	(9,155,893)			(22,846)	(9,178,739)	
Assets Held in Trust	1,198			3,914	5,112	
Other Non-Current Assets	30,696	624	52,354	14,405	98,079	
Total Non-Current Assets	34,482,571	3,017,575	2,852,365	7,327,305	47,679,816	314,877
Total Assets	43,698,216	3,989,537	2,944,864	11,369,615	62,002,232	634,007

Concluded on the following page

State of Texas
Statement of Net Assets
Proprietary Funds (concluded)
August 31, 2005 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund**
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds*	Totals	
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	$ 988,982	$ 210	$ 77,728	$ 201,320	$ 1,268,240	$ 443,373
Payroll	205,321			3,157	208,478	
Other Intergovernmental	13,378				13,378	
Federal	69,827				69,827	
Investment Trades	760,784			104,058	864,842	
Interest	3,054	12,048		47,080	62,182	
Due To Other Funds (Note 12)	11,998	4,630		11,064	27,692	846
Interfund Payable (Note 12)	4,310			75	4,385	
Deferred Revenue	1,632,862	33,529	39,443	35,722	1,741,556	858
Obligations/Securities Lending	1,660,269			314,891	1,975,160	55,677
Claims and Judgments (Note 5)	13,894				13,894	
Capital Lease Obligations (Note 5, 7)	2,251			110	2,361	
Employees' Compensable Leave (Note 5)	217,454			2,698	220,152	
Notes and Loans Payable (Note 5)	609,660			15,000	624,660	
General Obligation Bonds Payable (Note 5, 6)	3,855	36,805		52,412	93,072	
Revenue Bonds Payable (Note 5, 6)	299,187	31,915		268,460	599,562	
Liabilities Payable From Restricted Assets (Note 5)	234,763			397,336	632,099	
Funds Held for Others	99,344				99,344	
Other Current Liabilities	143,488		28,986	20,191	192,665	
Total Current Liabilities	6,974,681	119,137	146,157	1,473,574	8,713,549	500,754
Non-Current Liabilities:						
Interfund Payable (Note 12)	323,396				323,396	
Claims and Judgments (Note 5)	31,700				31,700	
Capital Lease Obligations (Note 5, 7)	10,750			558	11,308	
Employees' Compensable Leave (Note 5)	286,047			1,202	287,249	
Notes and Loans Payable (Note 5)	55,521		934,024		989,545	
Liabilities Payable From Restricted Assets (Note 5)				3,067,473	3,067,473	
General Obligation Bonds Payable (Note 5, 6)	48,830	922,195		1,750,424	2,721,449	
Revenue Bonds Payable (Note 5, 6)	5,583,055	1,236,360	1,371,827	2,957,998	11,149,240	
Assets Held for Others	383,637			3,914	387,551	
Other Non-Current Liabilities	173,599			236,460	410,059	
Total Non-Current Liabilities	6,896,535	2,158,555	2,305,851	8,018,029	19,378,970	0
Total Liabilities	13,871,216	2,277,692	2,452,008	9,491,603	28,092,519	500,754
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	5,720,680		492,856	39,103	6,252,639	
Restricted for:						
Education	1,693,205				1,693,205	
Debt Retirement	18,171	14,199		257,665	290,035	
Capital Projects	83,040				83,040	
Veterans Land Board Housing Programs				640,880	640,880	
Unemployment Trust Funds				1,600,677	1,600,677	
Funds Held as Permanent Investments:						
Nonexpendable	15,934,210				15,934,210	
Expendable	319,029				319,029	
Other				19,427	19,427	133,253
Unrestricted	6,058,665	1,697,646		(679,740)	7,076,571	
Total Net Assets	$29,827,000	$ 1,711,845	$ 492,856	$ 1,878,012	$33,909,713	$ 133,253

The accompanying notes to the financial statements are an integral part of this statement.

* The Veterans Land Board Loan Program Funds were previously reported as a major fund on the Statement of Net Assets Proprietary Funds but are now included in the Nonmajor Enterprise Funds column.

** Employees Life, Accident, and Health Insurance Benefits Fund - No combining statements presented.

State of Texas
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds*	Totals	Governmental Activities – Internal Service Fund**
OPERATING REVENUES						
Lottery Collections	$	$	$	$ 3,662,841	$ 3,662,841	$
Tuition Revenue	717,976				717,976	
Tuition Revenue - Pledged	1,933,419				1,933,419	
Discounts and Allowances	(484,898)				(484,898)	
Hospital Revenue - Pledged	4,720,529				4,720,529	
Discounts and Allowances	(2,417,977)				(2,417,977)	
Professional Fees	2,738,094				2,738,094	
Professional Fees - Pledged	8,580				8,580	
Discounts and Allowances	(1,847,983)				(1,847,983)	
Auxiliary Enterprises	79,036				79,036	
Auxiliary Enterprises - Pledged	691,632			77,131	768,763	
Discounts and Allowances	(34,789)				(34,789)	
Unemployment Taxes				1,963,403	1,963,403	
Other Sales of Goods and Services	73,243			(20,136)	53,107	
Other Sales of Goods and Services - Pledged	360,125			19,487	379,612	
Discounts and Allowances	(97)				(97)	
Interest and Investment Income	2,155	63,471		189,938	255,564	
Interest and Investment Income - Pledged	538	103,757			104,295	
Federal Revenue	2,207,510			95,796	2,303,306	
State Grant Revenue	199,209				199,209	
Premium Revenue				823,910	823,910	1,676,314
Other Operating Grant Revenue	413,105				413,105	
Other Operating Grant Revenue - Pledged	313,102				313,102	
Other Revenues	53,152	2,217		138,522	193,891	453
Other Revenues - Pledged	104,555			247	104,802	
Total Operating Revenues	9,830,216	169,445	0	6,951,139	16,950,800	1,676,767
OPERATING EXPENSES						
Cost of Goods Sold	143,440			56,301	199,741	
Salaries and Wages	7,132,220	5,999		38,246	7,176,465	5,425
Payroll Related Costs	1,622,377	1,019		9,672	1,633,068	1,314
Professional Fees and Services	592,281	1,292		42,436	636,009	988
Travel	196,173	71		623	196,867	33
Materials and Supplies	1,327,292	145		4,716	1,332,153	577
Communication and Utilities	490,844	50		686	491,580	292
Repairs and Maintenance	248,411	48		1,761	250,220	828
Rentals and Leases	161,201	57		8,999	170,257	503
Printing and Reproduction	56,637	5		13,350	69,992	32
Depreciation and Amortization	744,320			4,148	748,468	
Unemployment Benefit Payments				1,510,866	1,510,866	
Bad Debt Expense	7,339	43		2,213	9,595	
Interest Expense	2,529	129,361		187,995	319,885	
Scholarships	525,598				525,598	
Lottery Prize Payments				2,415,463	2,415,463	
Employee/Participant Benefit Payments				799,928	799,928	1,646,815
Claims and Judgments	17,631				17,631	
Other Expenses	948,841	1,913		148,561	1,099,315	320
Total Operating Expenses	14,217,134	140,003	0	5,245,964	19,603,101	1,657,127
Operating Income (Loss)	(4,386,918)	29,442	0	1,705,175	(2,652,301)	19,640

Concluded on the following page

State of Texas
Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Funds (concluded)
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds*	Totals	Governmental Activities – Internal Service Fund**
NONOPERATING REVENUES (EXPENSES)						
Federal Revenue	$ 32,099	$ 57,913	$ 72	$ 6,905	$ 96,989	$
Gifts	372,056			7	372,063	
Gifts - Pledged	51,671				51,671	
Land Income	5,579		14		5,593	
Interest and Investment Income (Loss)	3,404,745		(19,318)	270,253	3,655,680	14,655
Interest and Investment Income - Pledged	340,519				340,519	
Loan Premium and Fees on Securities Lending				6,905	6,905	1,157
Investing Activities Expense	(78,646)			(10)	(78,656)	
Interest Expense	(269,464)		(1)	(30,356)	(299,821)	
Borrower Rebates and Agent Fees	(849)			(7,672)	(8,521)	(1,003)
Gain on Sale of Capital Assets	6,425			6	6,431	
Settlement of Claims	20				20	2,644
Claims and Judgments	(1,458)			(10)	(1,468)	
Other Revenues	6,414			47	6,461	
Other Revenues - Pledged	35,834				35,834	
Other Expenses	(90,845)	(5,249)	(345)	(2,844)	(99,283)	
Total Nonoperating Revenues (Expenses)	3,814,100	52,664	(19,578)	243,231	4,090,417	17,453
Income (Loss) Before Capital Contributions, Endowments, and Transfers	(572,818)	82,106	(19,578)	1,948,406	1,438,116	37,093
CAPITAL CONTRIBUTIONS, ENDOWMENTS, AND TRANSFERS						
Capital Contributions - Other	162,673		70,254	28	232,955	
Contributions to Permanent and Term Endowments	145,919				145,919	
Transfer In (Note 12)	4,583,673	3,131	105,961	4,711	4,697,476	
Transfer Out (Note 12)	(654,287)	(5,565)		(1,092,523)	(1,752,375)	
Total Capital Contributions, Endowments, and Transfers	4,237,978	(2,434)	176,215	(1,087,784)	3,323,975	0
Change in Net Assets	3,665,160	79,672	156,637	860,622	4,762,091	37,093
Net Assets, September 1, 2004	26,870,719	1,632,173	336,219	1,057,545	29,896,656	96,160
Restatements (Note 14)	(708,879)			(40,155)	(749,034)	
Net Assets, September 1, 2004, as Restated	26,161,840	1,632,173	336,219	1,017,390	29,147,622	96,160
Net Assets, August 31, 2005	$29,827,000	$ 1,711,845	$ 492,856	$ 1,878,012	$33,909,713	$ 133,253

The accompanying notes to the financial statements are an integral part of this statement.

* The Veterans Land Board Loan Program Funds were previously reported as a major fund on the Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds, but are now included in the Nonmajor Enterprise Funds column.

** Employees Life, Accident, and Health Insurance Benefits Fund - No combining statements presented.

State of Texas
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds*	Totals	Governmental Activities – Internal Service Fund**
CASH FLOWS FROM OPERATING ACTIVITIES						
Receipts from Customers	$ 3,379,613	$	$	$ 6,701,978	$10,081,591	$ 420,242
Proceeds from Tuition and Fees	2,211,700				2,211,700	
Proceeds from Research Grants and Contracts	3,431,401			84,854	3,516,255	
Proceeds from Gifts	3,986				3,986	
Proceeds from Loan Programs	202,536			1,012,261	1,214,797	
Proceeds from Auxiliaries	720,350				720,350	
Proceeds from Other Revenues	644,511			143,676	788,187	1,250,734
Payments to Suppliers for Goods and Services	(4,271,574)	(1,706)		(1,201,658)	(5,474,938)	(5,167)
Payments to Employees	(8,685,336)	(6,883)		(45,737)	(8,737,956)	(5,136)
Payments for Loans Provided	(199,349)			(1,089,327)	(1,288,676)	
Payments for Other Expenses	(558,979)	(68)		(3,764,900)	(4,323,947)	(1,603,236)
Net Cash Provided by Operating Activities	(3,121,141)	(8,657)	0	1,841,147	(1,288,651)	57,437
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES						
Proceeds from Debt Issuance		42,859		708,550	751,409	
Proceeds from State Appropriations	3,517,249	3,130			3,520,379	
Proceeds from Gifts	377,691				377,691	
Proceeds from Endowments	167,140				167,140	
Proceeds from Transfers from Other Funds	160,778	165,029		4,091,998	4,417,805	
Proceeds from Grant Receipts	32,836	54,492			87,328	
Proceeds of Advances from Other Funds		5,303			5,303	
Proceeds from Other Financing Activities	109,603			17,036	126,639	
Proceeds from Contributed Capital	410				410	
Payments of Principal on Debt Issuance	(5,021)	(88,090)		(576,931)	(670,042)	
Payments of Interest	(15)	(130,625)		(344,060)	(474,700)	
Payments of Other Costs of Debt Issuance	(12)			(1,912)	(1,924)	
Payments for Transfers to Other Funds	(207,604)	(167,029)		(5,169,105)	(5,543,738)	
Payments for Grant Disbursements		(7,851)			(7,851)	
Payments for Advances to Other Funds		(17,221)			(17,221)	
Payments for Other Uses	(130,469)	(109)		(162,493)	(293,071)	
Net Cash Provided by Noncapital Financing Activities	4,022,586	(140,112)	0	(1,436,917)	2,445,557	0
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES						
Proceeds from Sale of Capital Assets	24,354				24,354	
Proceeds from Debt Issuance	1,546,840				1,546,840	
Proceeds from State Grants and Contracts	19,159				19,159	
Proceeds from Federal Grants and Contracts			72		72	
Proceeds from Gifts	1,128				1,128	
Proceeds from Other Financing Activities	29,749		14	6,532	36,295	
Proceeds from Capital Contributions	187,665		14,004		201,669	
Proceeds of Advances from Other Funds	71,500			3,965	75,465	
Payments for Additions to Capital Assets	(1,981,729)		(458,520)	(11,051)	(2,451,300)	
Payments of Principal on Debt Issuance	(953,172)		(84,574)		(1,037,746)	
Payments for Capital Leases	(377)				(377)	
Payments of Interest on Debt Issuance	(226,628)				(226,628)	
Payments on Other Costs of Debt Issuance	(22,226)		(345)		(22,571)	
Net Cash Provided by Capital and Related Financing Activities	(1,303,737)	0	(529,349)	(554)	(1,833,640)	0

Concluded on the following page

State of Texas
Statement of Cash Flows
Proprietary Funds (concluded)
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Business-Type Activities – Enterprise Funds					Governmental Activities – Internal Service Fund**
	Colleges and Universities	Texas Water Development Board Funds	Texas Department of Transportation Turnpike Authority	Nonmajor Enterprise Funds*	Totals	
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from Sale of Investments	$22,761,960	$ 44,763	$ 6,271,432	$ 1,807,691	$30,885,846	$
Proceeds from Interest and Investment Income	958,977	164,882	61,696	176,196	1,361,751	16,405
Proceeds from Principal Payments on Loans		275,950			275,950	
Payments for Non-Program Loans Provided		(328,405)		(894)	(329,299)	
Payments to Acquire Investments	(23,013,970)	(10,002)	(5,709,700)	(1,817,299)	(30,550,971)	(47,951)
Net Cash Provided by Investing Activities	706,967	147,188	623,428	165,694	1,643,277	(31,546)
Net Increase (Decrease) in Cash and Cash Equivalents	304,675	(1,581)	94,079	569,370	966,543	25,891
Cash and Cash Equivalents, September 1, 2004	3,886,933	240,738	462,138	2,090,067	6,679,876	11,090
Restatements	29,050			(40,140)	(11,090)	
Cash and Cash Equivalents, September 1, 2004, as Restated	3,915,983	240,738	462,138	2,049,927	6,668,786	11,090
Cash and Cash Equivalents, August 31, 2005	$ 4,220,658	$ 239,157	$ 556,217	$ 2,619,297	$ 7,635,329	$ 36,981
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES						
Operating Income (Loss)	$ (4,386,918)	$ 29,442	$	$ 1,705,175	$ (2,652,301)	$ 19,640
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:						
Depreciation and Amortization	744,320			4,148	748,468	
Bad Debt Expense	194,295	43		2,213	196,551	
Operating Income and Cash Flow Categories Classification Differences	249,952	(38,381)		141,021	352,592	2,645
Changes in Assets and Liabilities:						
(Increase) Decrease in Receivables	(315,014)			198,078	(116,936)	(8,680)
(Increase) Decrease in Due From Other Funds	(8,568)			23	(8,545)	182
(Increase) Decrease in Inventories	(26,349)			(1,229)	(27,578)	
(Increase) Decrease in Notes Receivable	(2,719)				(2,719)	
(Increase) Decrease in Loans and Contracts	(2,930)			(231,739)	(234,669)	
(Increase) Decrease in Other Assets	41,690			1,415	43,105	
(Increase) Decrease in Prepaid Expenses	(24,787)			1,469	(23,318)	
(Increase) Decrease in State Appropriations	(3,227)				(3,227)	
Increase (Decrease) in Payables	169,628	119		37,011	206,758	43,558
Increase (Decrease) in Deposits	6,035				6,035	
Increase (Decrease) in Due To Other Funds	11,958	120		(116)	11,962	25
Increase (Decrease) in Deferred Revenue	213,594			2,836	216,430	67
Increase (Decrease) in Compensated Absence Liability	41,652			(3)	41,649	
Increase (Decrease) in Benefits Payable	(4,790)			(17,715)	(22,505)	
Increase (Decrease) in Other Liabilities	(18,963)			(1,440)	(20,403)	
Total Adjustments	1,265,777	(38,099)	0	135,972	1,363,650	37,797
Net Cash Provided by Operating Activities	$ (3,121,141)	$ (8,657)	$ 0	$ 1,841,147	$ (1,288,651)	$ 57,437
NON CASH TRANSACTIONS						
Net Change in Fair Value of Investments	$ (1,528,283)		$ 19,318	$ (127,578)	$ (1,636,543)	$ 1,750
Donation of Capital Assets	$ (19,770)				$ (19,770)	
Borrowing Under Capital Lease Purchase	$ (2,208)				$ (2,208)	
Other	$ (492,645)				$ (492,645)	

The accompanying notes to the financial statements are an integral part of this statement.

* The Veterans Land Board Loan Program Funds were previously reported as a major fund on the Statement of Cash Flows Proprietary Funds, but are now included in the Nonmajor Enterprise Funds column.

** Employees Life, Accident, and Health Insurance Benefits Fund - No combining statements presented.

State of Texas
Statement of Fiduciary Net Assets
August 31, 2005 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Funds	Private-Purpose Trust Funds	Agency Funds
ASSETS				
Cash and Cash Equivalents	$ 1,678,679	$ 15	$ 490,833	$ 679,607
Restricted Cash and Cash Equivalents			291	
Securities Lending Collateral (Note 3)	14,837,169		89,342	
Investments: (Note 3)				
U.S. Government	19,374,649	2,749,951	136,472	564,837
Corporate Equity	58,860,500		328,527	206,234
Corporate Obligations	11,375,871		73,967	19
Repurchase Agreements	100,010	8,940,586	1,554	14,518
Foreign Securities	20,048,871		5,436	
Other	4,811,863	33,375	1,681,610	22,126
Receivables:				
Federal			109	
Other Intergovernmental				1,763
Interest and Dividends	329,244	13,122	4,792	6,553
Investment Trades	1,925,793		3,562	
Accounts	250,918		145	16,443
Other	370		1,342	38
Due From Other Funds (Note 12)	15,124			46
Properties, at Cost, net of Accumulated Depreciation	37,524		1,113	
Other Assets	480		89,318	1,634,622
Total Assets	133,647,065	11,737,049	2,908,413	3,146,806
LIABILITIES				
Payables:				
Accounts	490,518	18,976	3,005	11,555
Other Intergovernmental				580,850
Payroll	116,759			
Investment Trades	2,351,517	34,877	5,723	
Deferred Revenue	38,713		47	
Due To Other Funds (Note 12)	144,407			359
Interfund Payable (Note 12)				29
Employees' Compensable Leave	3,905			
Obligations/Securities Lending	14,837,169		89,342	
Funds Held for Others			89,317	2,554,013
Total Liabilities	17,982,988	53,853	187,434	3,146,806
NET ASSETS				
Held in Trust for:				
Pension Benefits and Other Purposes	115,664,077			
Individuals, Organizations, and Other Governments			2,720,979	
Pool Participants		11,683,196		
Total Net Assets	$115,664,077	$ 11,683,196	$ 2,720,979	$ 0

The accompanying notes to the financial statements are an integral part of this statement.

State of Texas
Statement of Changes in Fiduciary Net Assets
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Pension and Other Employee Benefit Trust Funds	External Investment Trust Funds	Private-Purpose Trust Funds
ADDITIONS			
Contributions:			
Member Contributions	$ 2,688,257	$	$
State Contributions	284,835		
Transfer In of Contributions (Note 12)	1,533,674		
Other Contributions	221,989		
Total Contributions	4,728,755	0	0
Investment Income:			
From Investing Activities:			
Net Appreciation in Fair Value of Investments	11,414,379		246,709
Interest and Investment Income	2,996,239	330,597	59,635
Total Investing Income	14,410,618	330,597	306,344
Less Investing Activities Expense	35,394	6,441	449
Net Income from Investing Activities	14,375,224	324,156	305,895
From Securities Lending Activities:			
Securities Lending Income	416,307		3,415
Less Securities Lending Expense:			
Borrower Rebates	364,716		3,204
Management Fees	8,395		
Net Income from Securities Lending	43,196	0	211
Total Net Investment Income	14,418,420	324,156	306,106
Capital Share and Individual Account Transactions:			
Net Increase in Participant Investments	0	1,136,548	0
Other Additions:			
Federal Revenue			1,413
Settlement of Claims			4,304
Other Revenue	471		234,938
Transfer In (Note 12)	596,936		20
Total Other Additions	597,407	0	240,675
Total Additions	19,744,582	1,460,704	546,781
DEDUCTIONS			
Benefits	7,424,164		7,456
Refunds of Contributions	333,262		
Transfer Out (Note 12)	47,887		1,117
Transfer Out of Contributions (Note 12)	266,570		
Intergovernmental Payments	268,647		52,844
Administrative Expenses	44,356		143,389
Total Deductions	8,384,886	0	204,806
INCREASE IN NET ASSETS	11,359,696	1,460,704	341,975
NET ASSETS			
Net Assets, September 1, 2004	104,066,096	10,225,469	2,616,985
Restatements (Note 14)	238,285	(2,977)	(237,981)
Net Assets, September 1, 2004, as Restated	104,304,381	10,222,492	2,379,004
Net Assets, August 31, 2005	$115,664,077	$ 11,683,196	$ 2,720,979

The accompanying notes to the financial statements are an integral part of this statement.

State of Texas
Index for Notes to Financial Statements
For the Fiscal Year Ended August 31, 2005

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Note 1
Summary of Significant Accounting Policies

BASIS OF PRESENTATION

The accompanying basic financial statements of the State of Texas have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

The state has implemented GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3* for fiscal year 2005. This statement, as discussed in Note 3, establishes and modifies disclosure requirements related to investment risks: credit risk including custodial credit risk and concentrations of credit risk, interest rate risk, and foreign currency risk. The statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk.

Financial reporting for the state is based on all GASB pronouncements, as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principals Board (APB) Opinions, and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989, are not followed in the preparation of the accompanying financial statements.

FINANCIAL REPORTING ENTITY

For financial reporting purposes, the State of Texas has included all funds, agencies, boards, commissions, authorities, colleges and universities, and other organizations that comprise its legal entity. The reporting entity also includes legally separate organizations for which the state is financially accountable and any other organizations that would cause the financial statements to be misleading or incomplete if they were excluded. All activities considered part of the state are included. These activities provide a range of services in the areas of education, health and human services, public safety and corrections, transportation, natural resources and recreation, regulation, general government, employee benefits, and teacher retirement benefits.

The reporting entity for the state is in accordance with the criteria established by the GASB. A listing and brief summary of the component units and their relationship to the State of Texas is discussed in Note 19. These financial statements present the State of Texas (the primary government) and its component units.

The state's public school districts and junior and community colleges are excluded from the reporting entity. The state is not financially accountable for these entities. They are legally separate entities that are fiscally independent of the state. This independence warrants their exclusion from the financial statements.

FINANCIAL REPORTING STRUCTURE

The basic financial statements include both government-wide and fund financial statements. The reporting model based on the GASB Statement No. 34 *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* focuses on the state as a whole in the government-wide financial statements and major individual funds in the fund financial statements.

Government-wide Financial Statements

The government-wide financial statements (Statement of Net Assets and Statement of Activities) display information about the state as a whole and the change in aggregate financial position resulting from the activities of the fiscal

period, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the state (including its blended component units), as well as its discretely presented component units. Certain general government administrative overhead expenses have been allocated as direct expenses to the various functions of the state.

In the Government-wide Statement of Net Assets, both the governmental and business-type activities columns are presented on a consolidated basis by column, and are reflected on a full accrual, economic resource basis, which incorporates non-current investments, capital assets as well as long-term debt and obligations.

The Government-wide Statement of Activities reflects both the gross and net cost per functional category (public safety, transportation, etc.), which is otherwise supported by general government revenues (sales, use, franchise taxes, etc.). In the Statement of Activities, program revenues are netted against program expenses, which include depreciation, to present the net cost of each program. Program revenues must be directly associated with the function, or with a business-type activity. Internally dedicated resources are reported as general revenues rather than program revenues.

Program revenues include (a) charges for services, (b) operating grants and contributions, and (c) capital grants and contributions. Charges for services include special assessments, and payments made by parties outside of the state's citizenry if that money is restricted to a particular program. Operating grants include operating-specific and discretionary (either operating or capital) grants, while the capital grants column reflects capital-specific grants.

The state's fiduciary funds are presented in the fund financial statements by type (pension, investment trust, private-purpose, and agency). The assets of the fiduciary funds are held for the benefit of others and cannot be used to address activities or obligations of the government. They are not, therefore, incorporated into the government-wide statements.

Fund Financial Statements

The fund financial statements are presented after the government-wide financial statements. They display information about major funds individually and in the aggregate for governmental and proprietary funds. In governmental and fiduciary funds, assets and liabilities are presented in order of relative liquidity. In proprietary funds, assets and liabilities are presented in a classified format, which distinguishes between all current and non-current assets and liabilities. Current assets in the classified format are those considered available for appropriation and expenditure. Examples of expendable financial resources include cash, various receivables, and short-term investments. All other assets are considered non-current. Current liabilities are obligations to be paid within the next fiscal year. Examples include payables and the current portion of long-term liabilities.

The major governmental funds in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This presentation is deemed most appropriate to demonstrate (a) compliance with legal and covenant requirements, (b) the source and use of financial resources, and (c) how the state's actual experience conforms to the budget. Since the governmental fund statements are presented using a different measurement focus and basis of accounting than the government-wide statements' governmental activities column, a reconciliation is presented, which explains the adjustments required to restate the fund-based financial statements for the government-wide governmental activities column.

The state uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. State transactions are recorded in the fund types described below.

Governmental Fund Types

The General Fund is the principal operating fund used to account for most of the state's general activities. It accounts for all financial resources except those accounted for in other funds. Special Revenue Funds account for specific revenue proceeds, which are legally restricted for specific purposes. Debt Service Funds account for the accumulation of resources for, and the payment of, general long-term debt principal and interest. Capital Projects Funds account for

financial resources used for the acquisition, repair, renovation, or construction of major capital facilities other than those financed by proprietary or similar trust funds. Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the state's programs.

The state's major governmental funds are listed below.

The **General Fund** is the principal operating fund used to account for most of the state's general activities. Included are transactions for general government, education, employee benefits, teacher retirement benefits, health and human services, public safety and corrections, transportation, natural resources and recreational services, and regulatory services.

The **State Highway Fund** receives funds allocated by law for public road construction, maintenance, monitoring, and law enforcement of the state's highway system.

The **Permanent School Fund** is an investment fund consisting of land and proceeds from the sale of land that establishes a perpetual provision for the support of the public schools of Texas. All dividends and other income are allocated to the credit of the Available School Fund.

Proprietary Fund Types

Proprietary Funds focus on determining operating income, changes in net assets, financial position, and cash flows. Generally accepted accounting principles similar to those used by private sector businesses are applied in accounting for these funds. Included in proprietary fund financial statements are Enterprise Funds and an Internal Service Fund.

Enterprise Funds are used to report any activity for which a fee is charged to external users for goods or services. Activities must be reported as enterprise funds if any one of the following criteria is met.

1. The activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges of the activity;
2. Laws or regulations require that the activity's costs of providing services, including capital costs (such as depreciation or debt service), be recovered with fees and charges; or
3. The pricing policies of the activity establish fees and charges designed to recover its costs, including capital costs.

Internal Service Funds account for the financing of goods or services provided by one agency to other agencies on a cost reimbursement basis. The **Employees Life, Accident, and Health Insurance Benefits Fund**, presented on the proprietary fund statements, is used to account for the services provided by the Group Insurance program to other agencies of the reporting entity.

The state's major Enterprise Funds are listed below.

The **Colleges and Universities** include University of Texas System, Texas A&M University System, Texas Tech University System, University of Houston System, Texas State University System, University of North Texas System, Texas Woman's University, Stephen F. Austin State University, Texas Southern University, Midwestern State University, and Texas State Technical College. They are represented as a single column in the proprietary fund financial statements, and individually in the Schedules - Colleges and Universities in the Other Supplementary Information section of this report.

The **Texas Water Development Board Funds** include water development funds, agricultural water conservation funds, and water pollution control revolving funds, which issue bonds to provide assistance to political subdivisions.

The **Texas Department of Transportation Turnpike Authority** receives proceeds from the sale of bonds that are used to finance a portion of the costs of planning, designing, engineering, developing and constructing the initial phase (referred to as the "FY2002 Project") of the Central Texas Turnpike System.

Due to decreased activity in the Veterans Land Board Loan Program Funds, the funds are no longer presented as a major fund. The presentation of the funds for fiscal year 2005 has been moved to the nonmajor enterprise funds in the Other Supplementary Information section of this report.

Fiduciary Fund Types

Fiduciary Funds account for assets held by the state, in either a trustee capacity or as an agent for individuals, private organizations, other governmental units, and/or other

funds. When assets are held under the terms of a formal trust agreement, either a pension trust fund, or a private-purpose trust fund is used.

Pension and Other Employee Benefit Trust Funds report resources held in trust for the members and beneficiaries of defined benefit pension plans. Additional information about pension trust funds can be found in Note 9. The state's deferred compensation plan, established under Internal Revenue Code (IRC) Section 457, Deferred Compensation Plans of State and Local Governmental Employers, is accounted for under the requirements of GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* as amended by GASB Statement No. 34. This plan is also reported as a Pension and Other Employee Benefit Trust Fund.

Investment Trust Funds report the external portions of investment pools reported by the sponsoring government.

Private-Purpose Trust Funds report all other trust arrangements whose principal and interest benefit individuals, private organizations, or other governments.

Agency Funds report assets the state holds on behalf of others in a purely custodial capacity. Agency funds involve only cash and cash equivalents, investments, and the receipt and remittance of fiduciary resources to individuals, private organizations, or other governments.

Component Units

All of the Component Units for the State of Texas are reported as nonmajor Component Units. The Combining Statement of Net Assets and the Combining Statement of Activities are presented for all of the discrete Component Units.

Additional information about blended and discretely presented component units can be found in Note 19. More detailed information of the individual component units is available from the component units' separately issued financial statements.

BASIS OF ACCOUNTING, MEASUREMENT FOCUS, AND FINANCIAL STATEMENT PRESENTATION

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all economic resources, and obligations of the reporting government, both current and noncurrent, are reported in the government-wide statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with GASB Statement No. 33 *Accounting and Financial Reporting for Non-exchange Transactions*.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Governmental funds use the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All governmental funds use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the period in which they become both measurable and available to finance operations of the fiscal year or liquidate liabilities existing at fiscal year end. The State of Texas considers all major revenue reported in the governmental funds to be available if the revenues are due at year-end and collected within sixty days thereafter. Expenditures and other uses of financial resources are recognized when the related liability is incurred. Although agency funds use the accrual basis of accounting, they do not have a measurement focus, because they do not recognize revenues and expenditures.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather

than reported as expenditures. Proceeds of long-term debt are recorded as liabilities in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as reductions of the related liabilities, rather than as expenditures. Proprietary fund types, pension trust funds, investment trust funds, and private-purpose trust funds are reported on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time liabilities are incurred.

Proprietary funds distinguish operating from non-operating items. Operating revenues and expenses result from providing services or producing and delivering goods in connection with the proprietary funds principal ongoing operations. Operating expenses for enterprise and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. Revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Budgets and Budgetary Accounting

The State Constitution requires the State Comptroller to submit a Biennial Revenue Estimate to the Legislature prior to each regular session. This document contains an itemized estimate of beginning cash balances, anticipated revenues based on laws then in effect, and estimated expenditures from prior appropriations. The Constitution also requires the State Comptroller to submit supplementary revenue estimates at any special session of the Legislature and at other necessary times to show probable changes.

The state's budget is prepared on a cash basis. The State Constitution limits appropriation bills to two years. The Legislative Budget Board is required by statute to adopt an estimated rate of growth for the next biennium and calculate a limit on the amount of state tax revenue not dedicated by the Constitution that is available for spending for the next biennium. If the Legislature, by adoption of a resolution approved by a record vote of a majority of the members of each house, finds that an emergency exists and identifies the nature of the emergency, the Legislature may provide appropriations in excess of the adopted limit. The Governor's Budget Office and Legislative Budget Board (LBB) initiate the process by submitting budget requests to the Legislature. At final passage of the Appropriations Bill by the Legislature, it is sent to the State Comptroller for certification. If the State Comptroller certifies that appropriated amounts are available in the affected funds, the bill is sent to the Governor. If not certified, the Legislature may pass the bill with a four-fifths majority vote. The Governor has the option of vetoing the total bill or specific line-item appropriations, but does not have the authority to reduce a line item of appropriation. Upon approval by the Governor, the bill becomes law and is the budget authority for state agencies to spend state funds. The State Comptroller is responsible for controlling, accounting, and reporting expenditures in accordance with the expenditure budgets.

The level of legal control for the budget is established at the Strategy (line item) level by agency. For example, "Highway Patrol", "Driver License & Records", and "Vehicle Inspection Program" are three of the strategies for the Department of Public Safety. The legal level of budgetary control is defined as the level at which the governing body must approve any over expenditure of appropriations or transfers of appropriated amounts. Agencies are authorized limited transfer authority between strategies, not to exceed 25 percent, by the General Appropriations Act. Transfers and expenditures are monitored against the original budget by the Comptroller to ensure the agency's authorized budget is not exceeded.

The level of legal control for all agencies is documented in the "Appropriation Summary Report" available by request from the Comptroller's office. This separate document includes budget and actual data by appropriation line item (Strategy) for each state agency. State agencies cannot exceed approved appropriations. In certain emergency situations, the Governor may authorize additional appropriations from deficiency and emergency appropriation reserves. Additional appropriations were not required in fiscal year 2005. Unexpended appropriations generally lapse 60 days after the fiscal year unless they are encumbered during the 60-day "lapse" period. Other appropriations referred to as "reappropriated unexpended balances" represent the

continuation of a prior year's balances for completion of a program.

The Budgetary Comparison Schedule, in the Required Supplementary Information Other than MD&A, presents the original budget, the final budget, and the actual activity of the major governmental funds. A reconciliation for the General Fund and the State Highway Fund budgetary basis to the GAAP basis is presented as Required Supplementary Information with explanations of the reconciling items. Budgetary information for nonmajor governmental funds is presented as Other Supplementary Information.

Cash and Cash Equivalents

For reporting purposes, this account includes cash on hand, cash in transit, cash in local banks, cash in the Federal and State Treasuries, and cash equivalents. Cash in local banks is primarily held by Special Revenue Funds, Enterprise Funds, and Fiduciary Funds. Cash balances of most state funds are pooled and invested by the Treasury Operations Division - Comptroller's office. Interest earned is deposited in the General Revenue Fund and specified funds designated by law.

The Statement of Cash Flows for proprietary funds shows the change in cash and cash equivalents during the fiscal year. Cash equivalents are defined as short-term, highly liquid investments that are both (a) readily convertible to known amounts of cash, and (b) so near maturity they present insignificant risk of changes in value due to changes in interest rates. Investments with an original maturity of three months or less and that are used for cash management rather than investing activities are considered cash equivalents. Restricted securities held as collateral for Securities Lending are not included as cash equivalents on the Statement of Cash Flows.

Investments

Investments are reported at fair value in the balance sheet or other statement of financial position. Fair value is the amount at which an investment could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale or through consultation with industry advisors. Certain money market investments may be reported at amortized cost provided the investment has a remaining maturity of one year or less at time of purchase. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement or statement of activities. The distribution to the Available School Fund is based on the total return based formula methodology discussed in Management's Discussion and Analysis. The amount of transfers allocated to the Available School Fund is $880 million. The objective, significant terms, and risks of derivative investments at August 31, 2005 can be found in Note 3.

Receivables and Payables

The major receivable for governmental activities and business-type activities are taxes and tuition, respectively. See Note 24 for details on Taxes Receivable. All receivables are shown net of uncollectible amounts. Other Receivables consist primarily of food stamp and nutrition assistance program receivables in the General Fund and receivables from private sponsored programs in the College and University Funds. The major portion of Other Current Liabilities is composed of tax refunds payable and unclaimed property in the General Fund, retainage contract payables in the State Highway Fund, and arbitrage, bond, and student liabilities in the College and University Funds.

Activities between funds that represent lending/borrowing arrangements outstanding at the end of the fiscal year are interfund loans. All other outstanding balances between funds are reported as "Due To/From other funds." Any residual balances between governmental and business-type activities are reported in the government-wide financial statements as "internal balances."

Non-Current Interfund Receivables between funds, as shown in Note 12, are reported as a fund balance reserve account in applicable governmental funds to indicate they are not available for appropriation and are not expendable financial resources.

Trade Receivables are reported for sales of investments pending settlement. Trade Payables are purchases of investments pending settlement.

Inventories and Prepaid Items

Inventories include both merchandise inventories on hand for sale and consumable inventories. Inventories are valued at cost, generally utilizing the last-in, first-out method.

The consumption method of accounting is used to account for inventories that appear in both governmental and proprietary fund types. The cost of these items is expensed when the items are consumed. Prepaid items reflect payments for costs applicable to future accounting periods and are recorded in both government-wide and fund financial statements.

Restricted Assets

Restricted assets include monies or other resources restricted by legal or contractual requirements. These assets include certain proceeds of enterprise fund general obligation and revenue bonds, as well as certain revenues, set aside for statutory or contractual requirements. Assets held in reserve for guaranteed student loan defaults are also included.

Capital Assets

Capital assets are reported in proprietary funds, trust funds, and government-wide financial statements. Capital assets are defined by the state as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Detailed information of capital assets can be found in Note 2.

GASB Statement No. 34 allows an alternative (modified) approach which reflects a reasonable value of the asset and cost required to maintain the service potential at established minimum standards in lieu of depreciation. The state has elected to use this option for its highway infrastructure. The state has developed and implemented an asset management system that establishes minimum standards and determines, at least every three years, whether the minimum standards are being met. Disclosures of the minimum standards and the current status of the state's system of highways are included in the Required Supplementary Information Other than MD&A section of this report.

Long-Term Liabilities

Reporting long-term liabilities in the Statement of Net Assets requires two components (a) the amount due in one year (current) and (b) the amount due in more than one year (non-current).

General long-term liabilities consist of the non-current portion of capital lease obligations, compensable leave, claims and judgments, and other non-current liabilities. General long-term liabilities are not reported as liabilities in governmental funds but are reported in the governmental activities column in the Government-wide Statement of Net Assets. The state reports rebatable arbitrage in claims and judgments. General long-term debt is not limited to liabilities arising from debt issuances, but may also include non-current liabilities on lease-purchase agreements and other commitments that are not current liabilities properly recorded in governmental funds.

In the government-wide financial statements and proprietary fund financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line or the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Deferred issuance costs are reported as deferred charges and amortized over the term of the debt.

In the governmental fund financial statements, bond premiums and discounts, as well as bond issuance costs, are recognized during the current period. The face amount of the debt issued is reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Employees' Compensable Leave Balances

GASB Statement No. 16, *Accounting for Compensated Absences*, establishes standards of accounting and reporting for compensated absences (vacation, unpaid overtime and sick leave) by state and local governmental entities. GASB Statement No. 34 requires governments to report and disclose the portion of compensated absences that is due within one year of the statement date.

Annual leave, commonly referred to as vacation leave, and other compensated absences with similar characteristics is accrued as a liability as the benefits are earned by the employee if both the employee's right to receive compensation is attributable to services already rendered and it is probable the employer will compensate the employee for the benefits through paid time off or some other means, such as cash payments at termination or retirement. Employees accrue vacation time at a rate of 8 to 21 hours per month depending on years of employment. The maximum number of hours that can be carried forward to the next fiscal year ranges from 180 hours to 532 hours based on years of service.

Overtime, under the federal Fair Labor Standards Act (FLSA) and state laws, can be accumulated in lieu of immediate payment as compensatory leave (at 1.5 hours for each overtime hour worked), for non-exempt, non-emergency employees to a maximum of 240 hours. All overtime exceeding 240 hours must be paid with the next regular payroll. At termination or death, all overtime balances must be paid in full. For emergency personnel (firefighters, law enforcement, prison officers, etc.), overtime can be accumulated to a maximum of 480 hours. Unpaid overtime must be included in the calculation of current and non-current liabilities for each employee since it may be used like compensatory time or be paid.

Compensatory leave is allowed for exempt employees not eligible for overtime pay. This leave is accumulated on an hour-for-hour basis and must be taken within one year from date earned or it lapses. There is no death or termination benefit for compensatory leave and it is non-transferable. Compensatory leave is reported as a current liability.

Sick leave is accrued at a rate of 8 hours per month with no limit on the amount that can be carried forward to the next fiscal year. Accumulated sick leave is not paid at employee termination, although an employee's estate may be paid for one-half of the accumulated sick leave to a maximum of 336 hours. A member who retires based on service or a disability is entitled to service credit in the retirement system for unused sick leave on the last day of employment. The maximum amount of the state's contingent obligation for sick leave has not been determined. However, the probability of a material impact on state operations in any given fiscal year is considered remote.

Capital Lease Obligations

Capital lease contracts payable, which are not funded by current resources, represent the liability for future lease payments under capital lease contracts. Note 7 provides the details for capital lease obligations.

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting is utilized in the governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year or years.

Net Assets

Invested in Capital Assets, Net of Related Debt consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of bonds, mortgages, notes, or other debt attributable to the acquisition, construction, or improvement of such assets. Significant unspent related debt proceeds are not included in the calculation of Invested in Capital Assets, Net of Related Debt. The unspent portion of the debt is included in restricted for capital projects.

The state reports net assets as restricted when constraints placed on net assets are (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (b) imposed by law through constitutional provisions.

Unrestricted Net Assets consist of net assets that do not meet the definition of Invested in Capital Assets, Net of Related Debt or Restricted Net Assets.

When both restricted and unrestricted net assets are available for use, it is the state's policy to use restricted resources first, and then unrestricted resources as they are needed.

Fund Balance Reserve and Designated Fund balances for governmental funds are classified to reserved, unre-

served/designated or unreserved/undesignated. Reserved fund balances are (a) funds legally segregated for a specific use or (b) assets which, by their nature, are not available for expenditure. Unreserved fund balances reflect the balances available for appropriation for the general purposes. Designations reflect senior management's self-imposed limitations on the use of available current financial resources. Note 13 presents the disaggregation of fund balances.

Interfund Activity and Transactions – Government-wide Financial Statement

GASB Statement No. 34 established a classification system with terms and definitions for interfund activity, and modified requirements for reporting transfers.

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements with the exception of activities between governmental activities and business-type activities. Interfund activity with fiduciary funds has been reclassified and reported as external activity.

Interfund payables and receivables have been eliminated from the Statement of Net Assets except for amounts due between governmental and business-type activities. These amounts are reported as internal balances on the Statement of Net Assets. Interfund activities between the primary government and component units with a different year-end are limited and immaterial. Note 12 provides the details of interfund activities and transactions.

Interfund Transactions

Interfund transactions with discretely presented component units have been reclassified and reported as external activity.

Risk Financing

The state maintains a combination of commercial insurance and a self-insurance program. The state is self-insured for workers' compensation and unemployment compensation claims and funds the liabilities on a pay-as-you-go basis. The state's group insurance program is provided through a combination of insurance contracts, a self-funded health plan, and health maintenance organization contracts.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported. For additional information, see Note 17.

Note 2
Capital Assets

Assets are capitalized at cost or, if not purchased, at appraised fair value as of the date of acquisition. Based on the requirements of GASB Statement No. 34, depreciation is reported on all "exhaustible" assets. "Inexhaustible assets" such as works of art and historical treasures are not depreciated. Professional, academic, and research library books and materials are considered "exhaustible" assets and are depreciated. All capital assets acquired by proprietary funds or trust funds are reported at cost or estimated historical cost, if actual historical cost is not available. Donated assets are reported at fair value on the acquisition date. Assets are depreciated over the estimated useful life of the asset using the straight-line method. The capitalization threshold and useful lives are as follows.

Capitalization of Assets

Type	Capitalization Threshold	Estimated Useful Life
Land and Land Improvements	$ 0	Not applicable
Infrastructure, Non-Depreciable	0	Not applicable
Construction in Progress	0	Not applicable
Buildings and Building Improvements	100,000	5-30 years
Infrastructure, Depreciable	500,000	10-50 years
Facilities and Other Improvements	100,000	10-60 years
Furniture and Equipment	5,000	3-15 years
Vehicles, Boats, and Aircraft	5,000	5-40 years
Other Capital Assets (Libraries, Leasehold Improvements, and Livestock)	Various	0-22 years

Historical cost records for some land and mineral interests are incomplete or not available. Accordingly, historical costs have been estimated. The effect on the financial statements of any error resulting from assumptions and estimates is not considered material.

Most land improvements (infrastructure) including curbs, sidewalks, fences, bridges, and lighting systems, are capitalized. The state's highway infrastructure, expected to be maintained in perpetuity, is reported using the modified approach allowed by GASB Statement No. 34.

Capitalization of interest incurred during the construction of capital assets is not applicable for governmental activities in accordance with GASB Statement No. 37. For proprietary fund types and trust funds with measurement focus on income determination or capital maintenance, the net amount of interest cost for qualifying assets is capitalized.

The following schedule presents the composition of the state's capital assets, adjustments, reclassifications, additions, and deletions during fiscal year 2005. The adjustment column includes assets that were not previously reported, accounting errors, and other changes. The reclassifications column shows completed construction projects and transfers of capital assets between agencies. The additions column includes current year purchases and depreciation. The deletions column shows assets removed during the current year.

Capital Asset Activity

For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	PRIMARY GOVERNMENT					
	Balance 9/1/04	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/05
GOVERNMENTAL ACTIVITIES						
Non-Depreciable Assets						
Land and Land Improvements	$ 5,729,395	$ (590)	$	$ 579,295	$ (4,432)	$ 6,303,668
Infrastructure	35,554,805	(61,571)	1,657,121			37,150,355
Construction in Progress	2,661,772	(30,098)	(2,406,737)	2,970,136		3,195,073
Other Capital Assets	196,911	(15,822)	(8)	82	(43)	181,120
Total Non-Depreciable Assets	44,142,883	(108,081)	(749,624)	3,549,513	(4,475)	46,830,216
Depreciable Assets						
Buildings and Building Improvements	4,880,315	10,778	101,350	2,684	(12,224)	4,982,903
Infrastructure	14,467,323	66,936	633,088	859	(51,792)	15,116,414
Facilities and Other Improvements	174,566	(90)	12,735		(176)	187,035
Furniture and Equipment	1,010,337	216	(31,418)	104,256	(58,672)	1,024,719
Vehicles, Boats, and Aircraft	860,485	(250)	(21)	74,138	(51,337)	883,015
Other Capital Assets	70,112	13,984	1,559	3,649	(1,674)	87,630
Total Depreciable Assets at Historical Cost	21,463,138	91,574	717,293	185,586	(175,875)	22,281,716
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(2,177,912)	(957)	13,079	(169,877)	10,004	(2,325,663)
Infrastructure	(7,667,178)	(1,382)		(488,433)	40,860	(8,116,133)
Facilities and Other Improvements	(97,780)	(349)	136	(6,232)	176	(104,049)
Furniture and Equipment	(740,654)	638	(1,980)	(79,772)	55,464	(766,304)
Vehicles, Boats, and Aircraft	(519,062)	(1,476)	1	(56,733)	44,006	(533,264)
Other Capital Assets	(30,118)	(5,445)		(4,216)	1,167	(38,612)
Total Accumulated Depreciation*	(11,232,704)	(8,971)	11,236	(805,263)	151,677	(11,884,025)
Depreciable Assets, Net	10,230,434	82,603	728,529	(619,677)	(24,198)	10,397,691
Governmental Activities Capital Assets, Net	$54,373,317	$ (25,478)	$ (21,095)	$2,929,836	$ (28,673)	$57,227,907

* Depreciation expense was charged to Governmental Activities as follows:

General Government	$ 47,166
Education	6,147
Employee Benefits	1
Health and Human Services	50,999
Public Safety and Corrections	144,357
Transportation	533,715
Natural Resources and Recreation	20,267
Regulatory Services	2,611
Total Governmental Activities Depreciation Expense	$ 805,263

Concluded on the following Page

Capital Asset Activity (concluded)

For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Balance 9/1/04	Adjustments	Reclassifications	Additions	Deletions	Balance 8/31/05
BUSINESS-TYPE ACTIVITIES						
Non-Depreciable Assets						
Land and Land Improvements	$ 831,665	$ 181	$ 4,049	$ 203,596	$ (2,559)	$ 1,036,932
Construction in Progress	3,099,008	(13,857)	(1,800,892)	1,832,440		3,116,699
Other Capital Assets	1,423,368	(1,139,447)		29,459	(6,687)	306,693
Total Non-Depreciable Assets	5,354,041	(1,153,123)	(1,796,843)	2,065,495	(9,246)	4,460,324
Depreciable Assets						
Buildings and Building Improvements	10,541,157	52,693	1,648,412	206,422	(33,549)	12,415,135
Infrastructure	575,880	(1)	26,526	3,972		606,377
Facilities and Other Improvements	819,093	2,317	32,968	16,925	(144)	871,159
Furniture and Equipment	2,829,371	(33,316)	105,029	322,996	(130,767)	3,093,313
Vehicles, Boats, and Aircraft	173,799	125	73	13,124	(11,696)	175,425
Other Capital Assets	93,770	901,483	4,712	61,161	(9,448)	1,051,678
Total Depreciable Assets at Historical Cost	15,033,070	923,301	1,817,720	624,600	(185,604)	18,213,087
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(5,325,432)	(22,821)		(355,385)	26,282	(5,677,356)
Infrastructure	(331,614)	4,247		(17,523)		(344,890)
Facilities and Other Improvements	(375,761)	(2,710)		(28,353)	17	(406,807)
Furniture and Equipment	(1,856,174)	29,343	223	(279,021)	112,505	(1,993,124)
Vehicles, Boats, and Aircraft	(124,213)	234	(5)	(13,349)	10,997	(126,336)
Other Capital Assets	(56,243)	(526,313)		(53,198)	5,528	(630,226)
Total Accumulated Depreciation**	(8,069,437)	(518,020)	218	(746,829)	155,329	(9,178,739)
Depreciable Assets, Net	6,963,633	405,281	1,817,938	(122,229)	(30,275)	9,034,348
Business-Type Activities Capital Assets, Net	$12,317,674	$ (747,842)	$ 21,095	$1,943,266	$ (39,521)	$13,494,672
COMPONENT UNITS						
Non-Depreciable Assets						
Land and Land Improvements	$ 3,654	$ (54)	$	$	$	$ 3,600
Construction in Progress	2,267	(2,139)		899		1,027
Total Non-Depreciable Assets	5,921	(2,193)	0	899	0	4,627
Depreciable Assets						
Buildings and Building Improvements	47,924	(12,240)		9		35,693
Facilities and Other Improvements	292			8		300
Furniture and Equipment	39,004	(11,352)		2,768	(619)	29,801
Vehicles, Boats, and Aircraft	25,989	(42)		1,500	(3,605)	23,842
Other Capital Assets	1,886	(1,883)				3
Total Depreciable Assets at Historical Cost	115,095	(25,517)	0	4,285	(4,224)	89,639
Less Accumulated Depreciation for:						
Buildings and Building Improvements	(8,125)	1,525		(245)		(6,845)
Facilities and Other Improvements	(164)			(53)		(217)
Furniture and Equipment	(19,897)	6,168		(1,413)	11	(15,131)
Vehicles, Boats, and Aircraft	(16,210)	40		(1,060)		(17,230)
Other Capital Assets	(649)	509		(3,459)		(3,599)
Total Accumulated Depreciation	(45,045)	8,242	0	(6,230)	11	(43,022)
Depreciable Assets, Net	70,050	(17,275)	0	(1,945)	(4,213)	46,617
Component Units Capital Assets, Net	$ 75,971	$ (19,468)	$ 0	$ (1,046)	$ (4,213)	$ 51,244

** Depreciation expense was charged to Business-Type Activities as follows:

Colleges and Universities	$ 743,332
Veterans Land Board Loan Program Funds	1,986
Other Business-Type Activities	1,511
Total Business-Type Activities Depreciation Expense	$ 746,829

Note 3
Deposits, Investments, and Repurchase Agreements

LEGAL AND CONTRACTUAL PROVISIONS

Authority for Investments

All monies in funds established in the Treasury Operations Division - Comptroller's office (Treasury) by the State Constitution or by an act of the Legislature are pooled for investment purposes. State statutes authorize the Treasury to invest state funds in fully collateralized time deposits, direct security repurchase agreements, reverse repurchase agreements, obligations of the United States, obligations of various federal credit organizations, bankers' acceptances, commercial paper, and contracts written by the Comptroller which are commonly known as covered call options.

The Treasury obtains direct access to the services of the Federal Reserve System through the Texas Treasury Safekeeping Trust Company (Trust Company). The Federal Reserve Bank requires that the Trust Company maintain a positive cash balance in the account during, and at the end of the day. The Trust Company met those requirements throughout fiscal year 2005. The Trust Company safekeeps U.S. Government securities in book-entry form for the major investment funds of the state, safekeeps collateral pledged to secure deposits of the Treasury in financial institutions, and acts as trustee for other public bodies to hold and manage funds on their behalf.

Certain state agencies, as well as colleges and universities, are authorized to invest funds not deposited with the Treasury. Of the four largest investing agencies: the Teacher Retirement System (TRS), the Texas Education Agency (TEA), and the Employees Retirement System (ERS) make investments following the "prudent person rule". The University of Texas System (UT) and TRS comply with the "prudent investor rule" when making investments. Authorized investments include equities, fixed income obligations, cash equivalents, and alternative investments.

Collateralization

State law requires that all Treasury funds deposited in financial institutions above the amounts insured by the Federal Deposit Insurance Corporation be fully collateralized by the pledging, to the Treasury, of securities valued at market excluding accrued interest. Generally, the list of eligible securities includes all United States Treasury Obligations, and most Agency Obligations, and securities issued by state agencies and political subdivisions within the state. All securities pledged to the Treasury must be held by a third-party bank domiciled in the state, any Federal Reserve Bank or one of its branches, the Trust Company, any Federal Home Loan Bank or in the vault of the Treasury. During fiscal year 2005, no depository holding state funds failed.

State agencies and institutions of higher education, with deposits of public funds that are not managed by the Treasury, are required to secure deposits through collateral pledged by depository banks and savings and loans. Eligible collateral securities are prescribed by state law, however, retirement systems are exempt by statute from this requirement.

External Investment Pool

The state reports the Texas Government Investment Pool (TexPool) Trust Fund, as an external investment trust fund. A separate report for TexPool can be obtained from the Trust Company.

Deposits

As of August 31, 2005, the carrying amount of deposits for governmental and business-type activities was $1.789 billion, for fiduciary funds was $162 million, and for discretely presented component units was $13 million. These amounts consist of all cash in local banks and a portion of short-term investments. These amounts are included on the Combined Statement of Net Assets as part of the "Cash and Cash Equivalents", "Securities Lending Collateral", and "Investments" accounts. As of August 31, 2005, the total bank balance for governmental and business-type activities was $990 million, for fiduciary funds was $160 million, and for discretely presented component units was $12 million.

Custodial Credit Risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the state will not be able to recover deposits or will not be able to recover collateral securities

that are in the possession of an outside party. The state does not have a deposit policy for custodial credit risk. The state's securities lending program is subject to custodial credit risk. This type of risk is inherent to the securities lending programs. Bank balances were exposed to custodial credit risk as follows.

Bank Balances Exposed to Custodial Credit Risk

August 31, 2005 (Amounts in Thousands)

	Uninsured and Uncollateralized	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution	Uninsured and Collateralized with Securities Held by the Pledging Financial Institution's Trust Department or Agent But Not in the State's Name
Governmental Activities			
Permanent School Fund	$ 1,409	$ 932,614	$
Other Nonmajor Funds		726	
Total Governmental Activities	1,409	933,340	0
Business-Type Activities	1,572	32,872	7,751
Total Governmental and Business-Type Activities	$ 2,981	$ 966,212	$ 7,751
Fiduciary	$ 21,709	$ 102	$ 0
Component Units	$ 0	$ 370	$ 2,784

Foreign Currency Risk: Foreign currency risk for bank balances is the risk that changes in exchange rates will adversely affect the deposit. The state does not have a formal deposit policy related to foreign currency. Foreign currency deposits are intended for settlement of pending international investment trades. The exposure to foreign currency risk for bank balances at August 31, 2005 is as follows.

Bank Balances Exposed to Foreign Currency Risk

August 31, 2005 (Amounts in Thousands)

	Governmental and Business-Type Activities	Pension and Other Employee Benefit Trust Funds
Australian Dollar	$	$ 1,609
Brazilian Real		16
Canadian Dollar	227	367
Danish Krone	23	87
Euro	885	644
Hong Kong Dollar		5
Japanese Yen	9	
Malaysian Ringgit		3
Mexican Peso		35
New Taiwan Dollar		16,469
Pound Sterling	130	457
Singapore Dollar	177	507
South African Rand		127
South Korean Won		64
Thai Baht		1,314
Qatar Riyal	226	
Total	$1,677	$21,704

Investments

The fair value of the state's investments is determined from quoted market prices except for money market investments, and participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less. The changes in the fair value of investments are reported as revenue in the operating statements.

The fair value of the state's investments is determined from published market prices and quotations from major investment brokers or independent pricing services. In general, the fair value of fixed income securities is based on yields currently available on comparable securities of issuers with similar credit ratings or are valued based on prices from fixed income pricing services or external broker quotes.

Where no readily ascertainable market value exists (including private equity), fair values can be determined in consultation with investment advisors and Master Trust Custodians, or based on the capital account balance at the closest available reporting period, as communicated by the general partner, adjusted for subsequent contributions, distributions, management fees and reserves.

Investments in money market investments are reported at amortized cost which approximates market value. Participating interest-earning investment contracts that have a remaining maturity at time of purchase of one year or less may also be reported at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer or by other factors.

The state's investments at August 31, 2005, are as follows.

Investment Fair Value
August 31, 2005 (Amounts in Thousands)

	Governmental and Business-Type Activities	Fiduciary	Component Units
U.S. Treasury	$ 3,340,355	$ 7,594,212	$ 185,967
U.S. Treasury Strips	28,293	52,175	4,984
U.S. Treasury TIPS	883,014	598,821	
U.S. Government Agency	10,037,909	15,750,174	381,016
Corporate Obligations	1,956,329	8,259,031	
Corporate Asset and Mortgage Back	831,586	5,568,178	
Corporate Equity	15,135,433	59,259,763	
International Obligations	422,713	1,966,906	
International Equity	5,786,991	18,091,817	
Repurchase Agreements	5,019,927	10,782,573	84,923
Fixed Income and Bond Mutual Fund	3,456,657	362,416	616
Other Commingled Funds	7,937,438	3,421,532	4,887
Commercial Paper	2,773,525	1,539,068	78,214
Securities Lending Collateral Investment Pool	2,075,056	4,512,733	
Real Estate	2,047,301	5,436	
Other Investments	6,912,617	9,350,860	60,807
Total Investments	$ 68,645,144	$147,115,695	$ 801,414

Custodial Credit Risk: Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the state will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The state does not have an investment policy for custodial credit risk. Consistent with the state's securities lending program, underlying securities on loans are subject to custodial credit risk.

At August 31, 2005, the state's investments were exposed to custodial credit risk as follows.

Investments Exposed to Custodial Credit Risk

August 31, 2005 (Amounts in Thousands)

	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty	Fair Value that is Uninsured and Unregistered with Securities Held by the Counterparty's Trust Department or Agent But Not in the State's Name
Governmental Activities		
Permanent School Fund		
Corporate Obligations	$ 78,732	$
Corporate Equity		7,261
Repurchase Agreements	782,204	
Commercial Paper	832,967	
Other Investments	867,996	
Other Nonmajor Funds		
U.S. Treasury	1,129	
Total Governmental Activities	2,563,028	7,261
Business-Type Activities		
U.S. Treasury		97,809
U.S. Government Agency		20,376
Corporate Equity	1,929	
International Equity		1,166
Repurchase Agreements	114,999	
Total Business-Type Activities	116,928	119,351
Total Governmental and Business-Type Activities	$ 2,679,956	$ 126,612
Fiduciary		
U.S. Treasury	$	$ 366,579
U.S. Treasury TIPS		98,234
U.S. Government Agency		177,059
Corporate Obligations		1,781,552
Corporate Asset and Mortgage Back		2,133,604
Repurchase Agreements		514,887
Commercial Paper		454,039
Other Investments		5,389,709
Total Fiduciary	$ 0	$ 10,915,663
Component Units		
U.S. Treasury	$ 46,695	$
Repurchase Agreements	60,416	
Total Component Units	$ 107,111	$ 0

Foreign Currency Risk: Foreign currency risk for investments is the risk that changes in exchange rates will adversely affect the investment. TRS, TEA, ERS, and UT have exposure to investment foreign currency risk. TRS does not have a formal policy related to its investments in non-U.S. dollar equity securities. TRS's investment policy states that not more than ten percent of the market value of the fixed income portfolio or four percent of the total fund, whichever is greater, may be invested in non-U.S. dollar fixed income securities. UT does not have a formal policy related to its investments in non-U.S. dollar equity securities. UT's investment policy limits investments in non-U.S. denominated bonds to fifty percent of its total fixed income exposure. TEA and ERS do not have an investment policy for managing foreign currency risk.

The state's exposure to foreign currency risk at August 31, 2005 is as follows.

Investments Exposed to Foreign Currency Risk

August 31, 2005 (Amounts in Thousands)

	Governmental and Business-Type Activities		Fiduciary	
	International Obligations	International Equity	International Obligations	International Equity
Argentine Peso	$	$ 6	$	$ 2,291
Australian Dollar	22,763	270,036		718,102
Bermudan Dollar		33		
Brazilian Real		3,351		136,010
Bulgarian Lev		7		
Canadian Dollar	37,163	426,541		909,701
Chilean Peso		30		20,720
Chinese Yuan		913		
Cyprus Pound		6		
Czech Koruna		260		16,411
Danish Krone	3,069	39,827		146,948
Egyptian Pound		120		
Euro	239,070	1,837,076	12,517	4,807,403
Hong Kong Dollar	28	108,351		427,710
Hungarian Forint		678		25,436
Indian Rupee		1,719		67,384
Indonesian Rupiah		644		22,876
Israeli Shekel		190		
Japanese Yen	33,595	1,309,221		3,280,407
Jersey Pound		19		
Lithuanian Litas		5		
Malaysian Ringgit		1,369		75,304
Mexican Peso	4,353	2,570		45,723
New Israel Shekel				20,617
New Taiwan Dollar	997	5,852		278,513
New Zealand Dollar	8,231	11,749	91,722	23,839
Norwegian Krone	18	61,982		163,851
Philippines Peso		272		1,216
Polish Zloty	4,656	1,118		27,272
Pound Sterling	26,731	1,238,373		3,647,463
Romanian Leu		111		
Russian Ruble		940		
Singapore Dollar	10,436	59,122		185,578
South African Rand		5,300		165,831
South Korean Won		26,724		296,479
Swedish Krona	43	114,487		275,071
Swiss Franc	164	329,492		798,830
Thai Baht		1,015		45,529
Turkish Lira		1,259		26,514
Venezuelan Bolivar		30		
Total	$ 391,317	$ 5,860,798	$ 104,239	$16,659,029

Credit Risk: Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO). The general investment policy of the investment funds limits investments in debt securities to those that are rated by Standard & Poor's Corporation BBB or better with an overall portfolio average of A or better.

At August 31, 2005, the state's credit quality distribution for securities with credit risk exposure was as follows.

Investments Exposed to Credit Risk

August 31, 2005 (Amounts in Thousands)

	AAA	AA	A	BBB	BB	B	CCC	NR
Governmental Activities								
U.S. Government Agency	$ 3,740,637	$ 17,867	$ 13,139	$	$	$	$	$ 484,816
Corporate Obligations	132,963	21,749	560,965	180,932	73,950	33,946	85	18
Corporate Asset and Mortgage Back	365,775							
International Obligations					1,934	2,166		
Repurchase Agreements	1,646,921		124,819					1,171,047
Other Investments	50,101	629,006	189,000					25,152
Total Governmental Activities	5,936,397	668,622	887,923	180,932	75,884	36,112	85	1,681,033
Business-Type Activities								
U.S. Government Agency	3,017,190	15,351	13,376					190,706
Corporate Obligations	83,103	280,092	375,139	184,733	103,710	54,694	1,064	30,723
Corporate Asset and Mortgage Back	245,199	17,385	2,658	6,561				20,567
International Obligations	298,368	35,611	22,947	31,780	9,682	6,318		13,911
Repurchase Agreements	1,428,581	114,999	27,701					997,244
Other Investments	93,481	27,164	6,496	10,816				510,623
Total Business-Type Activities	5,165,922	490,602	448,317	233,890	113,392	61,012	1,064	1,763,774
Governmental and Business-Type Activities								
U.S. Government Agency	6,757,827	33,218	26,515					675,522
Corporate Obligations	216,066	301,841	936,104	365,665	177,660	88,640	1,149	30,741
Corporate Asset and Mortgage Back	610,974	17,385	2,658	6,561				20,567
International Obligations	298,368	35,611	22,947	31,780	11,616	8,484		13,911
Repurchase Agreements	3,075,502	114,999	152,520					2,168,291
Other Investments	143,582	656,170	195,496	10,816				535,775
Total Governmental and Business-Type Activities	$11,102,319	$1,159,224	$1,336,240	$ 414,822	$ 189,276	$ 97,124	$ 1,149	$3,444,807
Fiduciary								
U.S. Government Agency	$14,684,899	$	$ 85,552	$	$	$	$	$ 204,153
Corporate Obligations	280,417	495,116	2,149,086	1,563,696	1,037,622	754,276	33,320	37,458
Corporate Asset and Mortgage Back	3,097,448	40,759	46,411	24,429	7,500	13,008		299,354
International Obligations	400,642	130,738	547,498	460,012	398,350	4,372		25,295
Repurchase Agreements	9,377,607		37,148					115,726
Other Investments	155	5		5				7,528
Total Fiduciary	$27,841,168	$ 666,618	$2,865,695	$2,048,142	$1,443,472	$771,656	$33,320	$ 689,514
Component Units								
U.S. Government Agency	$ 341,163	$	$ 35	$	$	$	$	$ 1,213
Corporate Obligations								
Corporate Asset and Mortgage Back								
International Obligations								
Repurchase Agreements	24,973		332					5,475
Other Investments								43,240
Total Component Units	$ 366,136	$ 0	$ 367	$ 0	$ 0	$ 0	$ 0	$ 49,928

Concluded on the following page

Investments Exposed to Credit Risk (concluded)

August 31, 2005 (Amounts in Thousands)

	AAAf	NR
Governmental Activities		
Fixed Income and Bond Mutual Fund	$ 231,902	$ 132,956
Business-Type Activities		
Fixed Income and Bond Mutual Fund	3,034,615	197,524
Governmental and Business-Type Activities		
Fixed Income and Bond Mutual Fund	$ 3,266,517	$ 330,480
Fiduciary		
Fixed Income and Bond Mutual Fund	$ 69,017	$ 293,290
Component Units		
Fixed Income and Bond Mutual Fund	$ 616	$ 0

	A-1	A-2	NR
Governmental and Business-Type Activities			
Commercial Paper	$ 4,505,457	$ 1,499	$ 69,863
Fiduciary			
Commercial Paper	$ 1,085,029	$ 0	$ 0
Component Units			
Commercial Paper	$ 78,214	$ 0	$ 0

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. TEA and TRS use the effective weighted duration method to identify and manage interest rate risk. UT and ERS use the modified duration method.

Duration is a measure of the price sensitivity of a debt investment to changes arising from movements in interest rates. Duration is the weighted average maturity of an instrument's cash flows, where the present value of the cash flows serves as the weights. The duration of an instrument can be calculated by first multiplying the time until receipt of cash flow by the ratio of the present value of that cash flow to the instrument's total present value. The sum of these weighted time periods is the duration of the instrument. Effective duration extends this analysis to incorporate an option adjusted measure of an instrument's sensitivity to changes in interest rates. Modified duration estimates the sensitivity of the fund's investments to changes in interest rates.

The investment policy of TEA limits the duration of the fixed income portfolio to plus or minus 5% of the Lehman Bros. Aggregate Index. Under TRS's investment policy, its portfolio will generally be structured to have an effective duration range of plus or minus 25% of the Lehman U.S. Aggregate Bond Index for domestic debt securities, and between 0% and 10% of the benchmark index for international debt securities. UT and ERS do not have a formal investment policy with respect to overall modified duration.

TEA's investments by investment type, fair value, and the effective weighted duration rate as of August 31, 2005 are as follows.

Investment Type	Fair Value (in Thousands)	Effective Weighted Duration Rate
U.S. Government and U.S. Government Agency Obligations	$ 2,102,305	5.14
U.S. Government Mortgage Backed Obligations	400,234	2.92
U.S. Government Agency Mortgage Obligations	970,470	2.98
Asset Backed Obligations	61,138	3.18
Commercial Mortgage Back Securities	119,848	4.75
Corporate Backed Commercial Mortgage Obligations	310,113	2.05
Corporate Obligations	840,283	6.17
U.S. Treasury Inflation Index Obligation	58,394	3.26
U.S. Private Placements	62,570	1.92
Total Fixed Income	$ 4,925,355	4.45

The following provides information about TEA's interest rate risks and maturities associated with its invested securities lending collateral by investment type.

Investment Type	Fair Value (in Thousands)	Investment Maturities in Less Than One Year
Cash (Uninvested)	$ 17	$ 17
Certificates of Deposit	932,598	932,598
Commercial Paper	832,967	832,967
Bank Floating Rate Notes	867,996	867,996
Corporate Floating Rate Notes	73,732	73,732
Corporate Interest Bearing Notes	5,000	5,000
Repurchase Agreements	782,204	782,204
Total	$ 3,494,514	$3,494,514

TRS's investments by investment type, fair value, and the effective weighted duration rate as of August 31, 2005 are as follows. The effective duration calculation assumes call dates that are likely to be used instead of actual maturity dates. Mortgage related instrument durations are calculated using generic mortgage pool models from Yield Book. The effective duration calculation excludes the High Yield Limited Partnerships, which are pooled instruments and not debt securites.

Investment Type	Fair Value (in Thousands)	Effective Weighted Duration Rate
U.S. Government Obligations	$ 5,425,372	6.52
U.S. Government Agency Obligations	8,780,504	2.89
Asset and Mortgage Backed Obligations	3,195,621	2.48
Corporate Obligations	3,594,542	5.57
International Obligations	1,958,627	6.26
Total Interest Rate Risk Debt Securities	$ 22,954,666	4.41

ERS's investments by investment type, fair value (in Thousands), and the modified duration rate as of August 31, 2005 are as follows.

Investment Type	Fiduciary Fund	Proprietary Fund	Modified Duration Fiduciary Fund	Modified Duration Proprietary Fund
U.S. Treasury Securities	$1,586,845	$ 113,811	5.83	3.07
U.S. Treasury TIPS	598,821		6.10	
U.S. Government Agency Obligations	2,744,155	81,303	2.93	3.14
Corporate Obligations	2,777,478	99,242	4.70	3.04
Corporate Asset and Mortgage Backed Obligations	238,953	20,521	3.62	1.96
Repurchase Agreements	100,010		0.01	
Money Market Funds	217,994	136,661	0.20	1.32
Overall Interest Rate Risk Debt Securities	$8,264,256	$ 451,538	4.32	2.55

UT's investments by investment type, fair value, and the modified duration rate as of August 31, 2005 are as follows.

Investment Type	Fair Value (in Thousands)	Modified Duration
Investments in Securities:		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	$ 1,217,701	3.12
U.S. Treasury Strips	11,697	6.07
U.S. Treasury Bills	20,645	0.14
U.S. Treasury Inflation Protected	822,059	8.04
U.S. Agency Asset Backed	20,536	5.03
Total U.S. Government Guaranteed	2,092,638	5.06
U.S. Government Non-Guaranteed:		
U.S. Agency	310,385	3.01
U.S. Agency Asset Backed	628,904	3.72
Total U.S. Government Non-Guaranteed	939,289	3.48
Total U.S. Government	3,031,927	4.57
Corporate Obligations:		
Domestic	352,377	4.95
Commercial Paper	82,154	0.22
Foreign	31,302	5.58
Total Corporate Obligations	465,833	4.16
Foreign Government and Provincial Obligations	241,865	7.27
Other Debt Securities	31,282	10.24
Total Debt Securities	3,770,907	4.73
Other Investment Funds – Debt	52,899	5.50
Fixed Income Money Market Funds	2,030,614	0.08
Other	30,687	
Total Investments in Securities	$ 5,885,107	3.11
Deposit with Brokers for Derivative Contracts:		
U.S. Government Guaranteed:		
U.S. Treasury Bonds and Notes	$ 314	0.41
U.S. Treasury Bills	81,515	0.21
U.S. Treasury Inflation Protected	1,146	1.33
Total U.S. Government Guaranteed	82,975	0.23
Cash	11,618	
Total Deposit with Brokers for Derivative Contracts	$ 94,593	0.20

Reverse Repurchase Agreements

Investments in reverse repurchase agreements by the Treasury and the Trust Company are permitted by statute. A reverse repurchase agreement consists of a sale of securities by the state with a simultaneous agreement to repurchase them in the future at the same price plus a contract rate of interest. Sale proceeds are invested by the state in securities or repurchase agreements that mature at or almost at the same time as the reverse repurchase agreement. Proceeds from the matured securities are used to liquidate the agreement resulting in a matched position. With a matched position there is minimal market risk, because the seller-borrower will hold the securities to maturity and liquidate them at face value. In the event of default on a reverse repurchase agreement, the Treasury would potentially suffer a loss. The loss occurs if the cash received does not exceed the fair value of the securities underlying reverse repurchase agreements. The amount of the loss would equal the difference between the fair value plus accrued interest of the underlying securities and the agreement price plus accrued interest. To minimize the risk of default, all securities backing reverse repurchase agreements are held by the Federal Reserve Bank in the state's name.

The Treasury's aggregate amount of reverse repurchase agreement obligations at August 31, 2005 was $123,680,599 including accrued interest. The aggregate fair value of the securities underlying those agreements, including accrued interest, was $123,999,325. The credit exposure at fiscal year end was $318,726.

Securities Lending

TRS, TEA, ERS, UT, the Trust Company, the Texas A&M University System (A&M), the General Land Office and Veterans Land Board (GLO/VLB), and the Texas Prepaid Higher Education Tuition Board (TPHETB) participate in a securities lending program as authorized by state statute. Under this program, the governmental entities transfer securities to an independent broker or dealer in exchange for collateral in the form of cash, governmental securities, or bank letters of credit. In addition, TEA may receive collateral in the form of other assets which it specifically agrees to with its lending agent and A&M may receive collateral in the form of fixed income securities and repurchase agreements. TRS, UT, and GLO/VLB receive collateral in excess of 102% of the value of domestic securities lent and 105% for international securities. TEA receives collateral in excess of 100% of the fair value plus accrued income for Government securities lent, 102% of the fair value plus accrued income for domestic corporate securities, and 105% of the fair value plus accrued income for foreign securities. ERS receives collateral of 100% of the value of securities lent plus accrued interest. A&M receives collateral of 102% of the value of the securities lent. The Trust Company receives collateral of 102% of the value of U.S. securities lent plus any accrued interest and 105% of the value of non-U.S. government securities plus any accrued interest. TPHETB receives collateral of 102% of the value of domestic securities lent plus accrued income and 105% plus accrued income for foreign securities. There is a simultaneous agreement to return the collateral for the same securities in the future.

The state's securities custodians are the security lending agents. The securities lending contracts do not allow the state to pledge or sell collateral securities unless the borrower defaults. For TRS, TEA, ERS, UT, GLO/VLB, and TPHETB, the lending agents are required to indemnify the state if the borrowers fail to return the securities. For the Trust Company and A&M, the lending agent is not liable with respect to any losses except to the extent that such losses result from the lending agent's negligence, failure to live up to its contractual responsibilities, or willful misconduct.

At year end there was no credit risk exposure to the state, because the amounts the state owed the borrowers exceeded the amounts the borrowers owed the state. The relationship between the maturities of investments made with cash collateral generally matched the maturities of the loan agreements for ERS and A&M. TRS, the Trust Company, GLO/VLB, and TPHEB loans are terminable at will. UT manages its investments to maintain an average maturity and overnight liquidity, and TEA maturities are defined by the lending agreement. There were no significant violations of legal or contractual provisions, no borrower or lending agent default losses, and no recoveries of prior-period losses during the year.

The state's aggregate amount of securities out on loan to broker-dealers at August 31, 2005 was $20.9 billion, of which TRS had $10.3 billion, TEA had $3.5 billion, ERS had $5 billion, UT had $1.4 billion, the Trust Company had $133 million, A&M had $256 million, GLO/VLB had $52 million, and TPHETB had $284 million.

Derivatives

Derivatives are financial instruments (securities or contracts) whose value is linked to, or "derived" from changes in interest rates, currency rates, and stock and commodity prices. Certain state agencies, and colleges and universities were parties to various derivative financial instruments including derivative contracts, options, and investments in commingled funds which are authorized to use derivatives and swaps.

At August 31, 2005, the following derivatives were held and reported at fair value on the Statement of Net Assets and the Statement of Fiduciary Net Assets.

Type	Held By
Forward Contracts	TRS, UT, and A&M
Written Call Options	TRS and UT
Index Funds, Hedge Funds, and Commingled Funds	UT
Futures Contracts	ERS and UT
Swaps	UT

Forward contracts are bought or sold when an international trade has been made. The contract is in the currency native to the security transactions for settlement date. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform.

During the year, call options were written on the S&P 500 Index and on Treasury Bond and equity index futures. If a call option expires, the state realizes a gain to the extent of the premium received. If a call option is exercised, the difference between the proceeds of the sale plus the amount of the premium and the fair value of the security are realized as a gain or loss. If a call option is repurchased, the difference between the premium income received and the amount paid to close the option contract is realized as a gain or loss.

Index funds, hedge funds, and commingled funds alter market exposure without trading the underlying cash market securities.

Futures contracts are used to facilitate various trading strategies, primarily as a tool to increase or decrease market exposure to various asset classes.

Swaps are entered into primarily to hedge and control interest rate risks.

Note 4
Short Term Debt: Tax and Revenue Anticipation Notes

On August 24, 2004 (with an issue date of August 31, 2004), $6.6 billion in the State of Texas Tax and Revenue Anticipation Notes, Series 2004, were sold to coordinate the cash flow of the state for the fiscal year ended August 31, 2005. Issuance of these notes enhanced the state's ability to make timely payment of expenditures payable from the General Revenue Fund. The Series 2004 were repaid during fiscal year 2005 and bore interest at 3.00% and were priced to yield 1.614%.

On August 23, 2005, the Comptroller's office sold approximately $6.2 billion of the State of Texas Tax and Revenue Anticipation Notes, Series 2005 with an issue date of September 1, 2005, and a maturity date of August 31, 2006. The notes bear interest at 4.50% and were priced to yield 3.061%. They are not subject to redemption prior to maturity. On August 23, 2005, good faith funds in the amount of $62 million were received and the associated liability was recorded. Short term debt activity for the year ended August 31, 2005, is as follows.

Tax and Revenue Anticipation Notes
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Beginning Balance 9/1/04	Issued	Redeemed	Ending Balance 8/31/05
Tax and Revenue Anticipation Notes	$ 6,600,000	$ 0	$ 6,600,000	$ 0

Note 5
Long-Term Liabilities

The long-term liabilities activity for the fiscal year ended August 31, 2005 is shown in the table below.

Long-Term Liabilities Activity
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Beginning Balance 9/1/04	Additions	Reductions	Ending Balance 8/31/05	Amounts Due within One Year	Amounts Due Thereafter
GOVERNMENTAL ACTIVITIES						
Claims and Judgments	$ 241,502	$ 34,518	$ 54,767	$ 221,253	$ 78,845	$ 142,408
Capital Lease Obligations	47,838	73	3,885	44,026	30,647	13,379
Employees' Compensable Leave	525,654	737,367	659,152	603,869	402,451	201,418
Notes and Loans Payable	116,299	163,200	17,400	262,099	19,680	242,419
General Obligation Bonds Payable	3,115,885	1,070,565	214,430	3,972,020	282,650	3,689,370
Revenue Bonds Payable	678,584	232,991	279,413	632,162	86,311	545,851
Governmental Activities Long-Term Liabilities	$ 4,725,762	$ 2,238,714	$ 1,229,047	$ 5,735,429	$ 900,584	$ 4,834,845
BUSINESS-TYPE ACTIVITIES						
Claims and Judgments	$ 50,206	$ 694	$ 5,306	$ 45,594	$ 13,894	$ 31,700
Capital Lease Obligations	12,127	3,565	2,023	13,669	2,361	11,308
Employees' Compensable Leave	459,453	145,754	97,806	507,401	220,152	287,249
Notes and Loans Payable	1,920,090	545,608	851,493	1,614,205	624,660	989,545
General Obligation Bonds Payable	2,719,415	323,669	228,563	2,814,521	93,072	2,721,449
Revenue Bonds Payable	10,844,329	2,309,476	1,405,003	11,748,802	599,562	11,149,240
Liabilities Payable From Restricted Assets	3,627,279	148,466	76,173	3,699,572	632,099	3,067,473
Business-Type Activities Long-Term Liabilities	$19,632,899	$ 3,477,232	$ 2,666,367	$20,443,764	$ 2,185,800	$18,257,964
COMPONENT UNITS						
Capital Lease Obligations	$ 434	$ 187	$ 365	$ 256	$ 168	$ 88
Employees' Compensable Leave	4,446	1,682	1,837	4,291	3,106	1,185
Notes and Loans Payable	218,756	271,400	294,889	195,267	51,752	143,515
Revenue Bonds Payable	196,999	53,822	41,226	209,595	23,772	185,823
Liabilities Payable From Restricted Assets	210,374	192		210,566		210,566
Component Units Long-Term Liabilities	$ 631,009	$ 327,283	$ 338,317	$ 619,975	$ 78,798	$ 541,177

Notes and Loans Payable consists of amounts used to purchase mainframe computer equipment, software development, and construction of adult and youth corrections and mental health and mental retardation facilities. Debt service requirements for Notes and Loans Payable in the long-term liabilities are shown to the right and at the top of the following page.

General Obligation Bonds and Revenue Bonds are described in detail in Note 6.

Claims and Judgments are payments on behalf of the state, its agencies, and employees for various legal proceedings and claims. Tort claims are covered under the Texas Tort Claims Act. Numerous miscellaneous claims are covered under the Miscellaneous Claims Act for legal liabilities

Notes and Loans Payable Debt Service Requirements Governmental Activities
(Amounts in Thousands)

Year	Principal	Interest	Total
2006	$ 19,680	$ 11,381	$ 31,061
2007	21,339	11,109	32,448
2008	16,881	10,133	27,014
2009	14,947	9,304	24,251
2010	13,745	8,585	22,330
2011 - 2015	63,394	33,448	96,842
2016 - 2020	57,370	18,313	75,683
2021 - 2025	50,042	5,485	55,527
2026 - 2030	4,701	61	4,762
Total Requirements	$ 262,099	$ 107,819	$ 369,918

Notes and Loans Payable Debt Service Requirements Business-Type Activities
(Amounts in Thousands)

Year	Principal	Interest	Total
2006	$ 624,661	$ 49,915	$ 674,576
2007	128,645	46,993	175,638
2008	778,753	40,936	819,689
2009	3,024	2,357	5,381
2010	2,560	2,195	4,755
2011 - 2015	11,902	9,009	20,911
2016 - 2020	20,996	3,668	24,664
2021 - 2025	9,640	1,226	10,866
Total Requirements	1,580,181	156,299	1,736,480
Premium	34,025		34,025
Total Requirements	$1,614,206	$ 156,299	$1,770,505

Notes and Loans Payable Debt Service Requirements Component Units
(Amounts in Thousands)

Year	Principal	Interest	Total
2006	$ 51,752	$ 7,014	$ 58,766
2007	23,651	6,000	29,651
2008	27,912	4,877	32,789
2009	21,975	3,567	25,542
2010	13,215	2,597	15,812
2011 - 2015	56,762	4,276	61,038
Total Requirements	$ 195,267	$ 28,331	$ 223,598

against the state for which no appropriation otherwise exists. Individual claims above $25,000 or numerous separate claims from the same individual or entity that in total exceed $25,000 must be approved by the State Legislature before being paid.

Employees' Compensable Leave is the state's liability for all unused vacation and unpaid over-time accrued by employees, payable as severance pay under specified conditions. This obligation is paid only at the time of termination.

Capital Lease Obligations are described in detail in Note 7.

Liabilities that are associated with the acquisition of restricted assets or liabilities that will be liquidated with restricted assets are classified as Liabilities Payable from Restricted Assets.

Note 6
Bonded Indebtedness

DESCRIPTION OF BOND ISSUES

The State of Texas has 467 bond issues outstanding as of August 31, 2005. During fiscal year 2005, the state paid $390.3 million from general revenue for debt service.

General Obligation Bonds - General Comments

The Texas Constitution authorizes the state to issue several types of general obligation bonds. Each issue of general obligation bonds is designed to be self-supporting from a primary revenue source related to the program being financed, except for the general obligation bonds of the Texas Public Finance Authority, the Water Development Board and the Constitutional Appropriation Bonds.

The purpose and primary pledged revenue sources of each type of general obligation bond are summarized below.

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds to finance the acquisition and development of state park sites. Park entrance fees and investment earnings are applied to debt service on the bonds.

The **Texas Public Finance Authority** (Authority) issues general obligation bonds to finance the acquisition, construction, or renovation of buildings for the use of state agencies and institutions. The Authority is also authorized to issue general obligation bonds to assist local government economic development projects to enhance the value of military facilities. The bonds are payable from state appropriations.

The **Texas Water Development Board** issues bonds to provide financial assistance to political subdivisions for water development, water quality enhancement projects, and flood control projects. Debt service payments are funded by principal and interest received on bonds bought from the political subdivisions, repayments of purchased water storage contracts, and earnings on temporary investments.

The **General Land Office/Veterans Land Board** issues bonds to provide funds to loan to eligible Texas veterans for the purchase of land, housing, or home improvements. Principal and interest payments on loans, plus investment earnings, are the primary source of repayment for bonds.

Constitutional Appropriation Bonds are issued in support of the construction programs of colleges and universities not benefiting from the Permanent University Fund, which is dedicated to the University of Texas and Texas A&M University Systems. Debt service payments on bonds issued are limited to the $87.5 million in general revenue available for debt service each year.

The **Economic Development and Tourism Office** within **The Office of the Governor** has the authority to issue general obligation bonds to provide financial assistance to export businesses, to promote domestic business development, and to provide loans to finance the commercialization of new and improved products and processes.

The **Texas Agricultural Finance Authority**, a public authority created within the Department of Agriculture, has the authority to issue bonds to provide financial assistance for the expansion, development, and diversification of agricultural businesses.

General Obligation Bonds - Authorized But Unissued

The Constitution limits the amount of bonds that can be issued in any of the general obligation categories. As of August 31, 2005, the amounts of general obligation bonds other than Constitutional Appropriation Bonds that were authorized but unissued are listed in the table below.

General Obligation Bonds Authorized But Unissued
(Amounts in Thousands)

SELF-SUPPORTING	
Texas Agricultural Finance Authority Bonds	$ 20,000
Farm and Ranch Loan Bonds	25,000
Veterans Land and Housing Bonds	355,002
Water Development Bonds	2,127,961
College Student Loan Bonds	250,000
Texas Military Preparedness Commission	250,000
Agricultural Water Conservation Bonds	164,840
	3,192,803
NOT SELF-SUPPORTING	
Texas Public Finance Authority Bonds	689,566
Water Development Bonds - State Participation Bonds	15,000
Water Development Bonds - Economically Distressed Areas Program	37,011
	741,577
Total General Obligation Bonds	$ 3,934,380

Revenue Bonds - General Comments

Each series of revenue bonds is backed by the pledged revenue sources and restricted funds specified in the bond resolution. Each series is designed to be self-supporting except for the following, which are supported by pledged lease or rental revenue derived from contracts with other state agencies, which in turn comes from legislative appropriations.

Changes in Bonds Payable
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Bonds Outstanding 9/1/04	Bonds Issued	Bonds Matured or Retired	Bonds Refunded	Bonds Outstanding 8/31/05	Due Within One Year
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds	$ 3,115,885	$ 1,070,565	$ 200,180	$ 14,250	$ 3,972,020	$ 282,650
Revenue Bonds	678,584	232,991	84,088	195,325	632,162	86,311
Governmental Activities Bond Total	3,794,469	1,303,556	284,268	209,575	4,604,182	368,961
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	2,719,415	323,669	107,933	120,630	2,814,521	93,072
Revenue Bonds	10,844,329	2,309,476	542,359	862,644	11,748,802	599,562
Business-Type Activities Bond Total	13,563,744	2,633,145	650,292	983,274	14,563,323	692,634
COMPONENT UNITS						
Revenue Bonds	196,999	53,822	7,405	33,821	209,595	23,772
Total Bonds	$17,555,212	$ 3,990,523	$ 941,965	$ 1,226,670	$19,377,100	$ 1,085,367

- Texas Military Facilities Commission Bonds;
- Texas Public Finance Authority Bonds;
- Texas Department of Criminal Justice Bonds; and
- Texas Parks and Wildlife Department Bonds.

The purpose and primary pledged revenue sources of each type of revenue bond are summarized below.

The **Texas Military Facilities Commission** issues bonds for the construction, expansion, and renovation of armories. The bonds are payable from certain pledged revenues, primarily rentals from the Adjutant General's Department.

The **Texas Workforce Commission** was authorized to issue, in an amount not to exceed $2 billion for any separate bond issue, revenue bonds to (a) repay advances from the federal unemployment insurance program, (b) pay unemployment benefits by depositing the proceeds in the unemployment compensation fund, (c) pay costs of issuance, and (d) pay capitalized interest on bonds.

The **Texas Public Finance Authority** issues bonds to finance the acquisition, construction, or renovation of buildings for the use of state agencies and institutions. The bonds are payable from specified pledged revenues, primarily occupant-agency rentals collected.

The **Texas Public Finance Authority** issued bonds to establish the Texas Workers' Compensation Insurance Fund that would operate as an insurance carrier. Due to changes in organizational structure, the fund is now a related organization and their name has changed to the Texas Mutual Insurance Company. Debt service is paid from securities on deposit in the Escrow Fund. The Escrow Fund was established to provide for the full and complete discharge of the Fund's obligation to continue collecting a maintenance tax surcharge on gross premiums of insurers providing workers compensation insurance in the state. The Authority has also issued bonds on behalf of other state agencies and universities.

The **Texas Higher Education Coordinating Board** issues bonds for educational loans to eligible Texas college students. Payments received on the loan contracts are applied to debt service on the bonds.

The **Texas Parks and Wildlife Department** issues bonds for infrastructure repairs. The bonds are payable from state appropriations.

The **General Land Office/Veterans Land Board** issues bonds to assist in the construction of skilled nursing care facilities for veterans. The bonds are limited and special revenue obligations of the Board payable solely from the income, revenues, receipts, and collateral pledged under the related trust indenture.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of

Miscellaneous Bond Information
(Amounts in Thousands)

Description of Issue	Bonds Issued to Date	Range of Interest Rates		Maturities First Year	Maturities Last Year	First Call Date
GOVERNMENTAL ACTIVITIES						
General Obligation Bonds	$ 5,754,827	2.00	8.00	1992	2045	07/01/04
Revenue Bonds	1,666,397	2.50	9.00	1991	2025	02/01/01
Governmental Activities Bond Total	7,421,224					
BUSINESS-TYPE ACTIVITIES						
General Obligation Bonds	3,803,124	1.37	9.50	1993	2043	02/24/94
Revenue Bonds	16,157,926	1.95	15.00	1985	2045	09/01/86
Business-Type Activities Bond Total	19,961,050					
COMPONENT UNITS						
Revenue Bonds	393,654	3.25	7.10	1986	2040	10/18/86
Grand Total	$27,775,928					

Debt Service Requirements

(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES

Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2006	$ 282,650	$ 175,820	$ 458,470	$ 86,311	$ 25,768	$ 112,079
2007	278,965	170,561	449,526	82,456	21,463	103,919
2008	294,530	156,464	450,994	58,450	18,203	76,653
2009	352,230	140,668	492,898	59,565	16,013	75,578
2010	290,700	125,110	415,810	61,900	13,720	75,620
2011 - 2015	1,095,830	445,672	1,541,502	245,970	43,761	289,731
2016 - 2020	455,955	285,003	740,958	69,420	6,955	76,375
2021 - 2025	293,315	206,313	499,628	4,080	436	4,516
2026 - 2030	263,255	140,570	403,825	10	0	10
2031 - 2035	320,705	70,994	391,699	0	0	0
2036 - 2040	76,840	17,182	94,022	0	0	0
2041 - 2045	45,000	11,556	56,556	0	0	0
	4,049,975 *	1,945,913	5,995,888	668,162 *	146,319	814,481
Accretion	(77,955)		(77,955)	(36,000)		(36,000)
Total	$ 3,972,020	$ 1,945,913	$ 5,917,933	$ 632,162	$ 146,319	$ 778,481

BUSINESS-TYPE ACTIVITIES

Year	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2006	$ 93,072	$ 124,007	$ 217,079	$ 599,562	$ 525,233	$ 1,124,795
2007	102,279	120,833	223,112	525,238	508,803	1,034,041
2008	106,581	117,375	223,956	550,248	486,693	1,036,941
2009	112,910	113,426	226,336	450,709	462,444	913,153
2010	145,468	108,078	253,546	759,417	440,373	1,199,790
2011 - 2015	597,142	456,811	1,053,953	1,957,991	1,888,850	3,846,841
2016 - 2020	593,507	321,720	915,227	2,251,225	1,350,354	3,601,579
2021 - 2025	457,640	190,671	648,311	1,534,293	909,589	2,443,882
2026 - 2030	421,420	93,384	514,804	1,458,909	638,384	2,097,293
2031 - 2035	173,080	23,406	196,486	1,441,456	405,124	1,846,580
2036 - 2040	17,085	4,388	21,473	995,859	248,341	1,244,200
2041 - 2045	6,945	557	7,502	548,709	43,872	592,581
	2,827,129 *	1,674,656	4,501,785	13,073,616 *	7,908,060	20,981,676
Accretion	(12,608)		(12,608)	(1,474,126)		(1,474,126)
Premium				227,050		227,050
Discount				(22,085)		(22,085)
Loss on Refunding				(55,653)		(55,653)
Total	$ 2,814,521	$ 1,674,656	$ 4,489,177	$11,748,802	$ 7,908,060	$19,656,862

COMPONENT UNITS

Year	Revenue Bonds		
	Principal	Interest	Total
2006	$ 23,772	$ 5,531	$ 29,303
2007	6,104	6,261	12,365
2008	5,903	5,870	11,773
2009	6,416	5,499	11,915
2010	6,109	5,092	11,201
2011 - 2015	5,410	22,980	28,390
2016 - 2020	7,170	21,329	28,499
2021 - 2025	9,638	19,075	28,713
2026 - 2030	112,439	10,026	122,465
2031 - 2035	17,579	4,181	21,760
2036 - 2040	6,025	818	6,843
	206,565 *	106,662	313,227
Premium	3,030		3,030
Total	$ 209,595	$ 106,662	$ 316,257

* Increase/Decrease is due to accretion adjustment on deep discount bonds, premium, discount and/or loss on refunding.

homes by, or the construction of rental housing for, families with low to moderate incomes. Loan payments provide the revenues for debt service payments. The Department has also issued taxable bonds for investment in collateralized mortgage obligations of federal agencies, to finance mortgage loans and carry out financial assistance programs.

The **Texas Water Development Board** issues bonds for the Water Pollution Control Revolving Fund commonly referred to as the State Revolving Fund. The proceeds are used to provide financial assistance to political subdivisions to construct wastewater treatment facilities. Political subdivision bonds are pledged for debt service requirements of the bonds.

Permanent University Fund (Fund) Bonds are issued by the University of Texas and Texas A&M University Systems to build, equip, or buy buildings or other permanent improvements. The Texas Constitution limits each System's Fund debt to an amount not to exceed 20 percent and 10 percent, respectively, of the cost value of Fund assets, excluding real estate. Revenue from investments of the Fund is pledged to secure the payment of interest and principal. The cost value of Fund assets at August 31, 2005, excluding real estate, was $8.664 million. A comparison between the legal debt limits and the actual bonds outstanding at that date is shown below.

Permanent University Fund Bonds
(Amounts in Thousands)

	Legal Debt Limits	Actual Bonds Payable	Authorized But Unissued
University of Texas System	$1,732,788	$ 973,560	$ 759,228
Texas A&M University System	866,394	301,985	564,409
Totals	$2,599,182	$ 1,275,545	$ 1,323,637

Miscellaneous College and University Revenue Bonds are issued to provide funds to acquire, construct, improve, enlarge and equip property, buildings, structures or facilities. The revenue bonds issued by the institution's governing board are secured by the income of the institutions and are an obligation of the State of Texas.

The **Texas Small Business Industrial Development Corporation (TSBIDC)**, a non-profit corporation, came under the management of the Office of the Governor effective September 1, 2003, based on Senate Bill 275. The Office is now the oversight agency for the TSBIDC. TSBIDC's financial status is reported as a discretely presented proprietary fund of the Office. The TSBIDC bond program is composed of revenue demand bonds secured by an amended irrevocable letter of credit (LOC) issued by Bank of America for $101.7 million. This instrument replaces the previous LOC issued by Kredietbank Bank. As of August 31, 2005, no principal drawings have been made on the LOC. The Office does not have a take out agreement as part of this LOC or as a separate agreement. Bondholders may tend the bonds for repurchase every seven days. Any bonds so tendered will be purchased by proceeds of the remarketing of the bonds, or if not successfully marketed from amounts drawn under the LOC.

The **Texas Water Resources Finance Authority**, a public authority created within the Texas Water Development Board, issued bonds to purchase from the Board the majority of existing political subdivision bonds held. The political subdivision bonds are pledged for debt service requirements of the bonds.

The **Texas Department of Transportation Turnpike Authority** issued bonds to pay a portion of the costs of planning, designing, engineering, developing, and constructing the initial phase of the Central Texas Turnpike System (CTTP) located in the greater City of Austin, Texas metropolitan area in Travis and Williamson Counties, Texas. The bond obligations are payable from, and secured solely by a first lien on and pledge of the Trust Estate.

Demand Bonds

The Texas Small Business Industrial Development Corporation (TSBIDC) has issued revenue bonds, the General Land Office/Veterans Land Board (GLO) has issued 19 general obligation variable rate bonds that are subject to purchase on the demand of the holder at a price equal to principal plus accrued interest, and the Office of the Governor has issued general obligation bonds. TSBIDC bond proceeds are used to issue industrial development loans to businesses and

political subdivisions and GLO bond proceeds were used to fund land and housing loans to eligible Texas veterans, and to refund several bond issues. The principal balances outstanding on the GLO bonds at August 31, 2005 are $70.1 million and $746.3 million, respectively.

TSBIDC has entered into an irrevocable letter of credit agreement (LOC) issued by the Bank of America. Bondholders may tender the bonds for repurchase every seven days. Any bonds so tendered will be purchased with proceeds from the remarketing of the bonds, or if not successfully marketed, from amounts drawn under the LOC.

GLO has entered into a liquidity agreement with the Comptroller of Public Accounts that secures three of the bond issues. The agreement terminates on August 31, 2007. GLO pays an annual liquidity fee of 0.04% on the principal outstanding. In addition, GLO has entered into a standby bond purchase agreement with DEPFA that secures six bond issues. This agreement terminates on July 31, 2007. GLO pays an annual liquidity fee on this agreement of 0.085% on the principal outstanding. GLO has also entered into standby bond purchase agreements with Landesbank Hessen-Thüringen Girozentrale for four bond issues. These agreements terminate on December 31, 2015. Under these agreements, GLO pays an annual liquidity fee of 0.10% on the principal outstanding. GLO has also entered into standby bond purchase agreements with Dexia Credit Local for three bond issues. These agreements terminate on November 16, 2007. Under these agreements, GLO pays an annual liquidity fee of 0.10% on the principal outstanding. GLO has also entered into standby bond purchase agreements with State Street Bank and Trust Company for three bond issues. Two agreements terminate on February 23, 2008, and one agreement terminates on August 8, 2008. Under this agreement, GLO pays an annual liquidity fee of 0.10% on the principal outstanding.

The bondholder may tender any of these bonds for repurchase every seven days. Any bonds so tendered will be purchased either by the proceeds of the remarketing of such bonds or, if not successfully remarketed, from amounts drawn under the letter of credit, liquidity, or standby purchase agreements. As of August 31, 2005, there have been no draws on the letter of credit or any agreements. TSBIDC and GLO do not have take out agreements as part of the letter of credit, liquidity, or standby purchase agreements nor as a separate arrangement.

The Office of the Governor has issued two general obligation, self-supporting demand bonds: Product Development Program General Obligation Variable Rate Demand Bonds (PDPGO) for $25 million and Small Business Incubator General Obligation Variable Rate Demand Bonds (SBIGO) for $20 million.

The PDPGO Demand Bonds were created for the purposes of aiding in the development and production, including the commercialization, of new or improved products in the state. The loans were collateralized with the state's interest in the physical assets.

The SBIGO Demand Bonds were created for the purposes of fostering and stimulating the development of new or existing small businesses in the state. The loans were collateralized with the state's interest in the physical assets, intellectual property, and revenue-bearing license agreements financed with the loan proceeds.

The source of revenue for these demand bonds are loan repayments, which are designed to support debt service and program costs. All interest rate resets are mirrored in the interest rate provisions in the underlying loan so as to create a match in interest rate payments from the borrower with interest payments to the bondholders. Additionally, reserves in the amount of $2.5 million for the PDPGO Demand bond and $2.0 million for the SBIGO Demand bond have been set aside to provide for unforeseen cash flow mismatches.

The bondholders may tender the bonds for repurchase every seven days. Any bonds so tendered will be purchased with proceeds from loan repayments and the liquidity facility until remarketed.

Early Extinguishment of Debt

Entities that had early debt extinguishments in fiscal year 2005 are as follows.

The source of funds used for the extinguishments included loan repayments and other available funds.

Early Extinguished Debt Issues
(Amounts in Thousands)

GOVERNMENTAL ACTIVITIES	
Revenue Bonds	
Texas Higher Education Coordinating Board	$ 1,595
Governmental Activities Total	1,595
BUSINESS-TYPE ACTIVITIES	
Revenue Bonds	
Texas Department of Housing and Community Affairs	255,878
Water Development Board	25,230
University of Texas System	8,900
University of Houston System	1,300
Business-Type Activities Total	291,308
COMPONENT UNIT ACTIVITIES	
Texas Water Development Board	5,115
Component Unit Activities Total	5,115
Grand Total	$ 298,018

Refunding

During fiscal year 2005, eight entities refunded bonds to lower interest rates or to restructure debt service requirements for cash management purposes.

Refunding Issues
(Amounts in Thousands)

	Types of Refunding	Par Value of Refunding Issue	Par Value Refunded	Cash Flow Difference Increase (Reduction)	Economic Gain (Loss)
GOVERNMENTAL ACTIVITES					
General Obligation Bonds					
Texas Parks and Wildlife Department	Advance Refunding	$ 14,250	$ 14,249	$ (1,131)	$ 873
		14,250	14,249	(1,131)	873
Revenue Bonds					
Texas Parks and Wildlife Department	Advance Refunding	31,245	31,350	(1,557)	1,021
Texas Public Finance Authority	Advance Refunding	162,485	161,380	(13,547)	7,385
		193,730	192,730	(15,104)	8,406
Governmental Activities Total		207,980	206,979	(16,235)	9,279
BUSINESS-TYPE ACTIVITIES					
General Obligation Bonds					
Water Development Board	Current Refunding	32,050	29,865	6,288	4,345
General Land Office and Veterans Land Board	Current Refunding	68,625	68,625	10,973	6,533
		100,675	98,490	17,261	10,878
Revenue Bonds					
Water Development Board	Current Refunding	134,480	136,055	(14,700)	7,577
Texas Woman's University	Current Refunding	3,460	3,460		
Texas A&M University System	Advance Refunding	237,150	234,530	21,567	15,757
Texas State University System	Advance Refunding	45,630	45,060	1,278	997
University of Texas System	Current and Advance Refunding	576,194	795,750	14,572	6,432
		996,914	1,214,855	22,717	30,763
Business-Type Activities Total		1,097,589	1,313,345	39,978	41,641
Grand Total		$1,305,569	$1,520,324	$ 23,743	$ 50,920

Defeased Bonds Outstanding

Texas has defeased various bond issues by placing funds in irrevocable trusts in the State Treasury Safekeeping Trust Company and external financial institutions to provide for all future debt service payments on the old bonds. Funds placed in the Texas Treasury Safekeeping Trust Company to defease $301 thousand in bonds are included in the state's financial statements in an agency fund. The trust account assets and the liability for all other defeased bonds are not included in the state's financial statements. As of August 31, 2005, the following amounts of defeased bonds, at par, remained outstanding.

Defeased Bonds Outstanding
(Amounts in Thousands)

GOVERNMENTAL ACTIVITES	
Texas Public Finance Authority	$ 749,441
Texas Parks and Wildlife Department	45,495
Texas National Research Laboratory Commission	49,850
Water Development Board	18,335
	863,121
BUSINESS-TYPE ACTIVITIES	
University of Texas System	902,013
Texas A&M System	325,951
Water Development Board	78,295
General Land Office and Veterans Land Board	64,700
Texas State University System	58,955
Texas Tech System	49,971
Department of Housing and Community Affairs	24,525
University of North Texas System	5,455
Midwestern State University	3,870
Stephen F. Austin State University	3,751
Texas Woman's University	3,460
University of Houston System	630
Texas Southern University	315
	1,521,891
Total	$ 2,385,012

Conduit Debt

The Texas State Affordable Housing Corporation is authorized to issue statewide 501 (c) (3) tax-exempt multifamily mortgage revenue bonds under the Texas Government Code §2306.555. The 501 (c) (3) tax-exempt multifamily mortgage revenue bond program provides long-term variable or fixed rate financing to non-profit borrower/developers of new or existing multifamily rental properties in order to generate and/or preserve affordable rental housing. The Corporation may finance single developments or pools of properties located throughout the State of Texas. Borrowers must agree to set aside a prescribed percentage of a property's units for rent to persons and families of low income. The Corporation finances properties under the program primarily through the sale of tax-exempt multifamily housing revenue bonds.

The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Neither the Corporation, the state, nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying statements.

As of August 31, 2005, there were twenty-five series of multifamily housing revenue bonds outstanding with an aggregate $460.6 million principal amount payable.

Pay-Fixed
Receive-Variable Interest Rate Swaps
(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Fixed-Rate Paid	Variable-Rate Received	Knock-out Barrier
Vet Hsg Ref Bds Ser '95	$ 68,280	11/29/1995	5.5200%	Actual Bond Rate	N/A
Vet Land Ref Bds Ser '99A	33,400	06/01/1999	5.1120%	68% of 6M LIBOR	N/A
Vet Land Tax Ref Bds Ser '99B	31,600	12/01/1999	5.1250%	100% of 6M LIBOR	1M LIBOR >= 6.50%
Vet Land Tax Ref Bds Ser 2000	39,960	12/01/2000	6.1060%	100% of 6M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2001A-2	20,000	12/03/2001	4.3000%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2001C-2	25,000	12/18/2001	4.3650%	68% of 1M LIBOR	N/A
Vet Land Bds Ser 2002	19,335	02/21/2002	4.1400%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2002A-2	37,170	07/10/2002	3.8725%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2002	27,685	12/01/2002	4.9350%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund I Tax Ref Bds Ser 2002B	20,635	12/01/2002	4.9100%	100% of 6M LIBOR	6M LIBOR > 7.00%
Vet Hsg Fund II Bds Ser 2003A	47,580	03/04/2003	3.3040%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2003B	48,485	10/22/2003	3.4030%	64.5% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2003	28,155	12/01/2003	5.1230%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund I Tax Ref Bds Ser 2003	47,865	12/01/2003	5.1900%	100% of 6M LIBOR	6M LIBOR > 7.00%
Vet Hsg Fund II Bds Ser 2004A	49,045	04/07/2004	3.3130%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Tax Ref Bds Ser 2004A	18,605	06/01/2004	5.4500%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2004B	50,000	09/15/2004	3.6800%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2004	24,560	12/01/2004	5.4550%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D,E	43,705	12/01/2004	5.3480%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Bds Ser 2005A	50,000	02/24/2005	3.2790%	68% of 1M LIBOR	N/A
Vet Hsg Fund II Bds Ser 2005B	50,000	08/09/2005	3.0870%	68% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2005	22,795	12/01/2005	6.5170%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2005A,B,C	24,885	12/01/2005	5.1450%	100% of 1M LIBOR	1M LIBOR >= 7.00%; BMA/LIBOR Ratio > 74%
Vet Hsg Fund II Tax Ref Bds Ser 2005D	19,860	12/01/2005	4.9290%	100% of 1M LIBOR	1M LIBOR >= 7.00%; BMA/LIBOR Ratio > 74%
Vet Hsg Fund II Tax Ref Bds Ser 2005E	8,525	12/01/2005	4.3300%	100% of 1M LIBOR	N/A
Vet Land Tax Ref Bds Ser 2006	31,030	06/01/2006	6.5400%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006	22,325	06/01/2006	5.7900%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006A	38,570	06/01/2006	5.8300%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Land Tax Ref Bds Ser 2006B	24,035	06/01/2006	4.6100%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Land Tax Ref Bds Ser 2006A	41,050	12/01/2006	6.5130%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2006B	39,560	12/01/2006	5.4610%	100% of 1M LIBOR	1M LIBOR >= 7.00%; BMA/LIBOR Ratio > 74%
Vet Hsg Fund II Tax Ref Bds Ser 2007	54,160	12/01/2007	4.6580%	100% of 1M LIBOR	1M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2009	16,950	12/01/2009	6.2200%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2009A	65,845	12/01/2009	5.4525%	100% of 6M LIBOR	6M LIBOR >= 7.00%
Vet Hsg Fund II Tax Ref Bds Ser 2010A	66,720	06/01/2010	5.4010%	100% of 1M LIBOR	1M LIBOR >= 7.00%; BMA/LIBOR Ratio > 74%
Vet Land Tax Ref Bds Ser 2010	16,480	12/01/2010	5.2090%	100% of 1M LIBOR	1M LIBOR >= 7.00%; BMA/LIBOR Ratio > 74%
Total	$1,273,855				

Concluded on the following page

DERIVATIVES

During fiscal year 2005, Veterans Land Board (the Board) and University of Texas System (the System) have reported derivatives.

Pay-Fixed, Receive-Variable Interest Rate Swaps (Veterans Land Board)

Objective of the Swaps: The Board is currently a party to thirty-six pay-fixed, receive-variable interest rate swaps that are associated with forty variable-rate bond issues. The combination of swaps and variable-rate bonds creates synthetic fixed-rate debt. The use of synthetic fixed-rate debt has historically lowered the Board's borrowing costs, as compared to the borrowing costs associated with the issuance of traditional fixed-rate bonds. Several of the swaps contain embedded barrier options that provide for the Board to be "knocked out" of the swaps by the respective counterparties upon the breach of a certain predetermined barrier. In

Pay-Fixed
Receive-Variable Interest Rate Swaps (concluded)
(Amounts in Thousands)

Associated Bond Issue	Knock-out Type	Knock-out Period	Up-Front Knock-out Premium Received	Fair Value	Swap Termination Date	Counterparty Credit Ratings
Vet Hsg Ref Bds Ser '95	N/A	N/A	N/A	$ (9,823)	12/01/2016	AAA/Aaa
Vet Land Ref Bds Ser '99A	N/A	N/A	N/A	(4,496)	12/01/2018	AAA/Aaa
Vet Land Tax Ref Bds Ser '99B	Optional	Permanent	740	(1,114)	12/01/2009	AA+/Aaa
Vet Land Tax Ref Bds Ser 2000	Optional	Permanent	2,700	(6,754)	12/01/2020	AA+/Aaa
Vet Hsg Fund II Bds Ser 2001A-2	N/A	N/A	N/A	(2,954)	12/01/2029	AA-/Aa1
Vet Hsg Fund II Bds Ser 2001C-2	N/A	N/A	N/A	(4,554)	12/01/2033	AA+/Aaa
Vet Land Bds Ser 2002	N/A	N/A	N/A	(2,348)	12/01/2032	AA-/Aa3
Vet Hsg Fund II Bds Ser 2002A-2	N/A	N/A	N/A	(2,776)	06/01/2033	AAA/Aaa
Vet Land Tax Ref Bds Ser 2002	Mandatory	Periodic	2,785	(2,375)	12/01/2021	AA-/Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2002B	Mandatory	Periodic	2,165	(1,611)	06/01/2023	AA+/Aaa
Vet Hsg Fund II Bds Ser 2003A	N/A	N/A	N/A	(1,258)	06/01/2034	AA-/Aa3
Vet Hsg Fund II Bds Ser 2003B	N/A	N/A	N/A	(1,964)	06/01/2034	AAA/Aaa
Vet Land Tax Ref Bds Ser 2003	Mandatory	Periodic	1,896	(2,561)	12/01/2023	AA-/Aa3
Vet Hsg Fund I Tax Ref Bds Ser 2003	Mandatory	Periodic	4,470	(4,696)	06/01/2021	AA+/Aaa
Vet Hsg Fund II Bds Ser 2004A	N/A	N/A	N/A	(1,323)	12/01/2034	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2004A	Mandatory	Periodic	1,442	(2,415)	12/01/2024	AAA/Aaa
Vet Hsg Fund II Bds Ser 2004B	N/A	N/A	N/A	(2,985)	12/01/2034	AAA/Aaa
Vet Land Tax Ref Bds Ser 2004	Mandatory	Periodic	2,075	(3,163)	12/01/2024	AA-/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2004C,D,E	Mandatory	Periodic	2,594	(4,423)	06/01/2020	AA-/Aa3
Vet Hsg Fund II Bds Ser 2005A	N/A	N/A	N/A	(1,216)	06/01/2035	AAA/Aaa
Vet Hsg Fund II Bds Ser 2005B	N/A	N/A	N/A	(253)	06/01/2036	AAA/Aaa
Vet Land Tax Ref Bds Ser 2005	Mandatory	Periodic	1,542	(5,029)	12/01/2026	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2005A,B,C	Mandatory	Periodic	1,367	(3,761)	06/01/2026	AA-/Aa3
			566			
Vet Hsg Fund II Tax Ref Bds Ser 2005D	Mandatory	Periodic	484	(1,997)	12/01/2023	AA-/Aa3
			267			
Vet Hsg Fund II Tax Ref Bds Ser 2005E	N/A	N/A	N/A	(21)	12/01/2009	AA-/Aa3
Vet Land Tax Ref Bds Ser 2006	Mandatory	Periodic	1,931	(6,567)	12/01/2027	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2006	Mandatory	Periodic	1,493	(3,328)	12/01/2027	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2006A	Mandatory	Periodic	1,992	(6,932)	12/01/2026	AA-/Aa3
Vet Land Tax Ref Bds Ser 2006B	Mandatory	Periodic	886	(1,229)	12/01/2026	AAA/Aaa
Vet Land Tax Ref Bds Ser 2006A	Mandatory	Periodic	2,725	(8,328)	12/01/2027	AA-/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2006B	Mandatory	Periodic	2,652	(7,337)	12/01/2026	AA-/Aa3
			1,018			
Vet Hsg Fund II Tax Ref Bds Ser 2007	Mandatory	Periodic	935	(2,633)	06/01/2029	AA-/Aa3
Vet Hsg Fund II Tax Ref Bds Ser 2009	Mandatory	Periodic	612	(1,740)	12/01/2021	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2009A	Mandatory	Periodic	2,740	(7,138)	06/01/2031	AAA/Aaa
Vet Hsg Fund II Tax Ref Bds Ser 2010A	Mandatory	Periodic	2,355	(10,106)	12/01/2031	AA-/Aa3
			1,427			
Vet Land Tax Ref Bds Ser 2010	Mandatory	Periodic	466	(2,032)	12/01/2030	AA-/Aa3
			208			
Total			$46,533	$(133,240)		

each of these cases, the Board was paid an up-front option premium by the respective counterparties. With regard to the swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000, the knock-outs are permanent and are optional at the discretion of the counterparty. In the remainder of the swaps with embedded barrier options, the knock-out is mandatory and is periodic in nature, with the knock-out period corresponding only to the period during which the barrier was breached.

Terms, Fair Values, and Credit Ratings: The terms, fair values, and counterparty credit ratings related to the outstanding variable-to-fixed swaps as of August 31, 2005, are shown in the table on the previous page and above. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

Pay-Variable Receive-Variable Interest Rate Swaps

(Amounts in Thousands)

Associated Bond Issue	Notional Amount	Effective Date	Variable-Rate Paid	Variable-Rate Received	Fair Value	Swap Termination Date	Counter-party Credit Ratings
Vet Hsg Fund II Tax Bds Ser '97B-2	$ 25,000	09/27/2002	132.60% of BMA	100% of 3M LIBOR	$ 26	12/01/2010	AA-/Aa3
Vet Hsg Fund II Tax Bds Ser '99A-2	90,000	08/05/2002	134.40% of BMA	100% of 1M LIBOR	(464)	09/01/2011	AAA/Aaa
Vet Hsg Fund II Tax Bds Ser '99A-2	60,000	08/05/2002	134.40% of BMA	100% of 1M LIBOR	(294)	09/01/2011	AA+/Aaa
Vet Land Tax Bds Ser 2000A/2002A	38,445	08/05/2002	131.25% of BMA	100% of 1M LIBOR	(1,227)	12/01/2032	AA-/Aa3
Total	$213,445				$(1,959)		

Pay-Variable, Receive-Variable Interest Rate Swaps (Veterans Land Board)

Objective of the Swaps: The Board is currently a party to four pay-variable, receive-variable interest rate swaps that are associated with three taxable variable-rate bond issues. These swaps are LIBOR-to-BMA basis swaps and effectively convert the variable rate on the associated variable-rate bond issues from a LIBOR (taxable) based rate to a BMA (tax-exempt) based rate. The swaps are expected to generate an effective lower borrowing cost to the Board over the life of the swaps.

Terms, Fair Values, and Credit Ratings: The terms, fair values, and counterparty credit ratings related to the outstanding variable-to-variable basis swaps as of August 31, 2005, are shown in the table above. The notional amounts and amortization schedules of the swaps match those of the associated variable-rate bonds.

Swap Transactions (Veterans Land Board)

Fair Value: The fair values of the swaps were estimated using the zero-coupon method. Using observable market information for Treasury bonds and LIBOR spreads, a smoothed LIBOR swap yield curve is constructed. From this swap yield curve, the path of future expected floating LIBOR interest rates is determined for a specific swap transaction. The path of the floating payments is then averaged together to produce a single fixed swap rate for the same time horizon as the swap being valued. The difference between this calculated fixed swap rate and the actual fixed swap rate on the transaction is then multiplied by the applicable outstanding notional amount at each future payment date to generate a series of payments. These payments are then discounted back to the valuation date using hypothetical zero-coupon bond rates derived from the LIBOR swap yield curve. The sum of these discounted payments produces the fair value of the swap.

For swaps with embedded options, an additional calculation similar to that described above is conducted to determine the value of the options. Using the approach described above, a swap rate is derived for each potential exercise date of each option. Market-derived data for interest rate volatility is then used to determine a probabilistic range of potential swap rates. For each potential swap rate, a value is determined for the option. These values are then weighted by their probabilities and discounted back to the valuation date using hypothetical zero-coupon bond rates as described above. The sum of the present value of the values for each exercise date produces the fair value of the option.

Credit Risk: The Board mitigates the credit risk associated with its swaps by entering into transactions with highly-rated counterparties. As shown in the table on the previous page, the credit ratings of the Board's counterparties range from AAA to AA- by Standard & Poor's and Aaa to Aa3 by Moody's Investors Service.

The Board also mitigates its concentration of credit risk by diversifying its swap portfolio across several different counterparties. The Board's 40 currently outstanding swaps are spread among seven different counterparties, with no more than 30% of the total notional amount of swaps outstanding being associated with any single counterparty.

The Board's swap agreements also contain collateralization provisions that require counterparties to post collateral in the full amount of the fair value of the swap if the counterparty's credit rating is at or below A+ by Standard

& Poor's or A1 by Moody's Investors Service. Only U.S. Government obligations are acceptable forms of collateral. Posted collateral may be held either by the Board itself or by a third party custodian that is rated at least BBB+ by Standard & Poor's or Baa1 by Moody's Investors Service.

Basis Risk: The Board is exposed to basis risk to the extent that the interest payments on its variable-rate bonds do not match the variable-rate payments received on the associated swaps. The Board mitigates this risk by (a) matching the notional amount and amortization schedule of each swap to the principal amount and amortization schedule of each associated variable-rate bond issue and (b) selecting an index for the variable-rate leg of each swap that is reasonably expected to closely match the interest rate resets on the associated variable-rate bonds over the life of each bond issue.

Termination Risk: The Board or the counterparties may terminate any of the swaps if the other party fails to perform under the terms of the respective swap agreements. The Board also has the right to terminate any of the swaps at any time without cause. In addition, the swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000 provide the counterparty with the option to terminate the swap under certain conditions. If any of the swaps are terminated, the associated variable-rate bonds would no longer have a synthetic fixed rate, and the Board would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets on the Board's balance sheet. Also, if at the time of termination for a reason other than the exercise of a termination option held by a counterparty, a swap has a negative fair value, the Board would owe the respective counterparty a termination payment equal to the swap's fair value.

Rollover Risk: The swaps associated with the Vet Land Tax Ref Bds Ser '99B and the Vet Land Tax Ref Bds Ser 2000 provide the counterparty with the option to terminate the swap under certain conditions at any time on or after April 29, 2002. If either of these swaps is terminated through the counterparty's exercise of its option, the associated variable-rate bonds would no longer have a synthetic fixed rate, and the Board would be subject to interest rate risk to the extent that the variable-rate bonds were not hedged with another swap or with variable-rate assets on the Board's balance sheet.

Bonds that are exposed to such rollover risk are shown in the table below.

Interest Rate Swaps Subject to Rollover

Associated Bond Issue	Maturity Date of Bonds	Option Exercise Date	Swap Termination Date
Vet Land Tax Ref Bds Ser '99B	12/1/09	4/29/02	12/1/09
Vet Land Tax Ref Bds Ser 2000	12/1/20	4/29/02	12/1/20

Swap Payments and Associated Debt: Using rates as of August 31, 2005, the estimated debt service requirements of the Board's variable-rate bonds and associated net swap payments, assuming current interest rates and swap index relationships remain the same for their terms, are shown in the tables on the following page. As rates and index relationships vary in the future, so will the resulting actual interest payments and net swap payments.

Inverse Floating-Rate Bonds (Veterans Land Board)

The Veterans Land Board delivered its $6 million State of Texas Veterans Housing Assistance Bonds, Series 1994B-2 (auction rate securities) and $6 million State of Texas Veterans Housing Assistance Bonds, Series 1994B-3 (inverse floaters), on March 15, 1994.

The aggregate interest payable by the Board on the aggregate outstanding principal amounts of auction rate securities and the inverse floaters, which will always be equal, is fixed and will be derived by applying the notional rate (5.70%) to the aggregate outstanding principal of the auction rate securities and the inverse floaters. See the Bonds' Official Statement for more details on the calculation of the interest payment. The Official Statement may be obtained by contacting Veterans Land Board at P.O. Box 12873, Austin, Texas 78711-2873.

Forward Floating-to-Fixed Interest Rate Swaps (University of Texas System)

Objective of the interest rate swap: In June 1999, the System executed forward-starting, floating-to-fixed rate

Pay-Fixed, Receive-Variable Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2006	$ 25,620	$ 21,557	$ 11,829	$ 59,006
2007	29,440	21,006	11,428	61,874
2008	28,230	20,211	10,972	59,413
2009	29,470	19,423	10,515	59,408
2010	33,380	18,603	10,033	62,016
2011 - 2015	157,795	80,948	42,589	281,332
2016 - 2020	218,975	52,327	25,160	296,462
2021 - 2025	125,445	24,482	11,210	161,137
2026 - 2030	76,505	11,923	5,554	93,982
2031 - 2035	55,860	3,002	1,388	60,250
2036 - 2040	345	4	1	350
Total	$781,065	$273,486	$140,679	$1,195,230

Pay-Variable, Receive-Variable Swaps: Estimated Debt Service Requirements of Variable-Rate Debt Outstanding and Net Swap Payments

(Amounts in Thousands)

Year	Variable-Rate Bonds Principal	Variable-Rate Bonds Interest	Interest Rate Swaps, Net	Total
2006	$ 585	$ 7,565	$ (1,234)	$ 6,916
2007	620	7,543	(1,231)	6,932
2008	660	7,520	(1,226)	6,954
2009	700	7,496	(1,222)	6,974
2010	745	7,470	(1,218)	6,997
2011 - 2015	4,485	36,903	(2,337)	39,051
2016 - 2020	6,055	35,969	(859)	41,165
2021 - 2025	18,495	34,088	(640)	51,943
2026 - 2030	175,785	27,239	(344)	202,680
2031 - 2035	5,315	239	(41)	5,513
Total	$213,445	$172,032	$ (10,352)	$ 375,125

interest rate swap agreements ("Swap Agreements") with Morgan Guaranty Trust Company of New York, now J.P. Morgan Chase Bank ("Morgan"), and Goldman Sachs Mitsui Marine Derivative Products, L.P. ("Goldman"). The Swap Agreements were used to create a synthetic fixed-rate refunding of $80.5 million of the Board of Regents of The University of Texas System Revenue Financing System Bonds, Series 1991A and 1991B ("Refunded Bonds") on their optional redemption date of August 15, 2001 to achieve debt service savings. On May 17, 2001, the U.T. System Board of Regents issued its Revenue Financing System Refunding Bonds, Series 2001A, in the form of variable rate demand bonds. The Swap Agreements effectively change the U.T. System Board of Regent's interest rate on the Series 2001A Bonds, subject to some basis risk discussed below, to a fixed rate of 4.633%. The difference between the swap rate and the rates on the Refunded Bonds called August 15, 2001, resulted in estimated present value debt service savings of approximately $5.6 million.

Terms: Pursuant to the terms of the Swap Agreements, the U.T. System Board of Regents has agreed to pay interest on a notional amount of $80.5 million at a fixed rate of 4.633% per annum, with such obligation commencing on August 15, 2001. In consideration of receiving the payments from the U.T. System Board of Regents, Morgan and Goldman have agreed to pay to the U.T. System Board of Regents a variable rate equal to 67% of the one-month London Interbank Offered Rate ("LIBOR"). The Morgan Swap Agreement is for 60% of the notional amount and the Goldman Swap Agreement is for 40% of the notional amount. The Series 2001A Bonds are scheduled to mature and the Swap Agreements are scheduled to terminate on August 15, 2013. As of August 31, 2005, there was $36.67 million of the Series 2001A Bonds outstanding and the notional amount of the Swap Agreements was $36.12 million.

Fair Value: Because interest rates have declined since the execution of the Swap Agreements, the Swap Agreements have a negative fair value of $2.3 million as of August 31, 2005. The fair value was estimated using market-standard practice, which includes a calculation of future net settlement payments required by the swap, utilizing market expectations implied by the current yield curve for interest rate swap transactions.

Basis and Termination Risk: The Swap Agreements expose the U.T. System Board of Regents to basis risk as

the variable rate received under the Swap Agreements does not perfectly match the variable rate paid on the Series 2001A Bonds. Each Swap Agreement may be terminated if the respective counterparty does not maintain a credit rating of at least Aa3 by Moody's Investors Service ("Moody's") or AA- by Standard & Poor's Corporation ("S&P"). As of August 31, 2005, the swap providers' respective ratings by Moody's/S&P are as follows: J.P. Morgan Chase Bank, Aa2/AA- and Goldman Sachs Mitsui Marine Derivative Products, L.P., Aaa/AA+. The Swap Agreements may also be terminated by Morgan or Goldman, respectively, if the U.T. System Board of Regents does not maintain a credit rating of at least Aa3 by Moody's or AA- by S&P.

Note 7
Capital Leases

The state has entered into long-term capital leases to buy certain assets. The capital assets are recorded at the present value of the future minimum lease payments at the inception of the lease plus any cash paid or trade-in value received.

For governmental and business-type activities, the assets and liabilities are recorded in the government-wide financial statements.

The table below is a summary of the future minimum lease payments for capital leases.

Future Capital Lease Payments
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Primary Government						Discretely Presented Component Units		
	Governmental Activities			Business-Type Activities					
Year	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments	Principal	Interest	Total Future Minimum Lease Payments
2006	$ 30,647	$ 991	$ 31,638	$ 2,361	$ 644	$ 3,005	$ 168	$ 10	$ 178
2007	2,581	938	3,519	1,444	518	1,962	88	2	90
2008	1,443	699	2,142	1,462	422	1,884			
2009	1,545	599	2,144	1,184	350	1,534			
2010	1,512	492	2,004	939	303	1,242			
2011 - 2015	6,298	859	7,157	2,906	1,021	3,927			
2016 - 2020				2,019	455	2,474			
2021 - 2025				1,109	149	1,258			
2026 - 2030				245	17	262			
Totals	$ 44,026	$ 4,578	$ 48,604	$ 13,669	$ 3,879	$ 17,548	$ 256	$ 12	$ 268

The following table is an analysis of the property acquired under capital leases by asset category at August 31, 2005.

Assets Under Capital Leases
(Amounts in Thousands)

	Primary Government				Discretely Presented Component Units	
	Governmental Activities		Business - Type Activities			
Type	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation	Assets under Capital Lease	Accumulated Depreciation
Land	$ 1,700	$	$ 456	$	$	$
Buildings	59,734	17,918	10,145	1,136		
Furniture and Equipment	5,600	3,014	10,992	2,214	386	117
Vehicles, Boats, etc.	79	18	375	81		
Totals	$ 67,113	$ 20,950	$ 21,968	$ 3,431	$ 386	$ 117

Note 8
Operating Leases

Included in rental expenditures or expenses are assets leased on a long-term basis that have been classified as operating leases. The following is a schedule of minimum future rentals on non-cancelable operating leases as of August 31, 2005.

Noncancelable Operating Leases
(Amounts in Thousands)

Minimum Future Rentals As of August 31, 2005	Minimum Future Lease Payments Primary Government	Component Units
2006	$ 161,734	$ 1,197
2007	127,228	964
2008	92,913	744
2009	59,491	630
2010	44,096	555
2011 - 2015	70,761	251
2016 - 2020	11,198	
2021 - 2025	5,516	
2026 - 2030	5,516	
2031 - 2035	2,563	
Total	$ 581,016	$ 4,341

Note 9
Retirement Systems

The State of Texas has three public employee retirement systems (PERS) that administer seven defined benefit plans and one defined contribution plan. All defined benefit plans are included in the state's financial statements as pension trust funds. Amounts and types of securities held by the retirement systems are included in Note 3. The three agencies that administer the plans, the Employees Retirement System of Texas (ERS), the Teacher Retirement System of Texas (TRS) and the Fire Fighters' Pension Commission (FPC) issue separate financial reports. These reports are audited as individual entities with a separate opinion issued for each and may be obtained from the following:

Employees Retirement System of Texas
P.O. Box 13207
Austin, Texas 78711-3207

Teacher Retirement System of Texas
1000 Red River Street
Austin, Texas 78701-2698

Fire Fighters' Pension Commission
920 Colorado Street, 11th Floor
Austin, Texas 78701-2332

The state has also established a defined contribution plan as authorized by Tex. Gov. Code, Chapter 830, an optional retirement program for agencies and institutions of higher education. Participation in the optional retirement program provides for the purchase of annuity contracts from any insurance or annuity company that is qualified to do business in Texas. With the purchase of these individual annuity contracts, the state has effectively transferred the obligation for the payment of benefits to the company. In the event of the insurance or annuity company's insolvency, the state does not guarantee benefits. The contributory percentages of participant salaries provided by each participant and the state were 6.65% for the participant and 6% for the state. In addition, the Texas Higher Education Coordinating Board and institutions of higher education contributed 2.5% from operating funds for this retirement program. For the year ended August 31, 2005, the state's expense/contribution was $67,762,181.

GASB Statement No. 26 *Financial Reporting for Postemployment Healthcare Plans Administered by Defined Benefit Pension Plans*, is not applicable for the State of Texas since the health care plans are not administered by the pension trust funds.

DESCRIPTION OF PLANS AND FUNDING POLICY

Employees Retirement System of Texas

The Board of Trustees of ERS is the administrator of the Employees Retirement System of Texas Plan, the Law Enforcement and Custodial Officer Supplemental Retirement Plan (LECOS), and the Judicial Retirement System of Texas Plan One and Plan Two (JRS). Each of these plans is

considered to be a single-employer defined benefit pension plan.

Each plan provides a standard monthly benefit in a life annuity at retirement as well as death and disability benefits for members. A Partial Lump Sum Payment Option is available to members of the employee class, the elected class, and law enforcement and custodial officers. A one-time partial lump sum of up to three years of standard annuity at retirement can be taken and the annuity is reduced for life. The benefit and contribution provisions are authorized by state law and may be amended by the Texas Legislature. Contribution requirements are not actuarially determined, but are set by legislation.

The Employees Retirement System of Texas's audited report contains the actuarial valuations as of August 31, 2005, along with an actuarial letter dated December 14, 2005. No subsequent legislative action that would negatively affect their certification of actuarial soundness of the funds was noted.

Employees Retirement System of Texas Plan

The Employees Retirement System of Texas Plan, established by the Tex. Gov. Code, Title 8, Subtitle B, covers elected class members, employee class members and commissioned peace officers and custodial officers. The funding policy requires monthly contributions by both the state and employees (see Funding Information, Actuarial Methods, and Assumptions Table). The monthly benefit is determined by the years and months of service multiplied by a statutorily determined percentage and may vary by class.

- The elected class members are vested after eight years of credited service and may retire at age 50 with twelve years of service or at age 60 with eight years of service. The statutorial percentage is equal to 2.3% of the current state salary of a district judge.
- The employee class includes all employees and appointed officers of the state and excludes independent contractors and their employees and employees covered by TRS and the Judicial Retirement System. Employee class retirement benefits vest after five years of credited service and employees may retire at age 60 with five years of service or at any age when the combination of age and service (including months) total 80. The statutorial percentage is equal to 2.3% of the average of the highest 36 months of compensation. The minimum monthly standard annuity is $150; the maximum standard annuity is 100% of the average monthly compensation.
- Commissioned peace officers and custodial officers may retire at age 55 with ten years or at age 50 with twenty years of service.

Law Enforcement and Custodial Officer Supplemental Retirement Plan

The Law Enforcement and Custodial Officer Supplemental Retirement Plan, established under Tex. Gov. Code, sec. 814.107, covers statutorily certified custodial officers employed by the Department of Criminal Justice, including the Board of Pardons and Paroles, who have contact with inmates of that institution. The fund also covers other commissioned state agency law enforcement officers who are recognized by the Commission on Law Enforcement Officer Standards and Education.

Benefits vest after 20 years of credited service. Covered employees may retire at age 50, if vested, or the age at which the sum of the member's age and amount of service credit in the employee class equals 80. A member may receive reduced benefits once they complete 20 years of service, regardless of age. The monthly benefit at retirement is payable in a life only form of annuity. The monthly annuity is equal to 2.8% of average monthly compensation multiplied by years of service. Average monthly compensation is the average of the highest 36 months of salary out of the member's established service. The minimum monthly standard annuity is $150; the maximum standard annuity is 100% of the average monthly compensation.

For the bienniums ending August 31, 2005 and August 31, 2007, the state has not and will not be required to contribute to this fund. Annual actuarial valuations of the fund are performed to monitor the adequacy of the financing arrangement.

Judicial Retirement System of Texas Plans One and Two

The Judicial Retirement System of Texas Plans One and Two cover judges, justices, and commissioners of the Supreme Court, the Court of Criminal Appeals, the Court of Appeals, district courts, and certain commissions to a court. Members prior to August 31, 1985 participate in Plan One and all others participate in Plan Two. Participants in both plans may retire at age 65 with ten years of service with at least the last year being continuous and currently holding judicial office, or at age 65 with twelve years of service. Members of Plan One and Plan Two may retire at any age with 20 years of service. Prior to September 1, 2005, members of Plan Two were restricted to retirement at age 55 with 20 years of service. Participants in both plans are eligible for reduced early service retirement benefits once they attain age 60 and complete ten years of service if the member currently holds judicial office with at least the last year being continuous, or at age 60 with twelve years of service.

The monthly benefit at retirement is payable in a life only form of annuity. The monthly benefit for members of both plans is equal to 50% of the salary for the position from which the member retired and is increased by 10% of final compensation if in office within one year of benefit commencement.

Tex. Gov. Code, Title 8, Subtitle D requires employees to contribute 6% of their compensation and the state to make appropriations from the General Revenue Fund sufficient to administer the Judicial Retirement System Plan One. The contribution requirements are not actuarially determined since it is not funded in advance. There are actuarial valuations and an actuarial cost method only for fulfilling GASB Statement No. 25 *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 27 *Accounting for Pensions by State and Local Governmental Employers* requirements.

The funding policy of the Judicial Retirement System Plan Two is established by Tex. Gov. Code, Title 8, Subtitle E. The state's contribution to the plan is determined each even-numbered year for the next biennium and is based upon an actuarial valuation. Significant actuarial assumptions are the same as those used to compute the net pension benefit.

Teacher Retirement System of Texas

The Teacher Retirement System of Texas is a multiple-employer public employee retirement system (PERS). It is a cost-sharing PERS with one exception: risks and costs are generally not shared by the employer (unless the employer is a senior college, medical school, or a state agency in which case the employer is considered the State of Texas) but are the liability of the State of Texas. The plan is reported under the sole-employer provisions of GASB Statement No. 27 since the State of Texas is legally responsible for a significant portion of the annual required contributions. The Teacher Retirement System of Texas administers retirement, proportional retirement, disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school system of Texas. The benefit and contribution provisions of this plan are authorized by state law and may be amended by the Texas Legislature.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Tex. Gov. Code, Title 8, Subtitle C, are covered by the system.

A member is vested after five years of creditable service and is eligible to retire at a future date and receive a lifetime monthly annuity. The normal service retirement is at age 65 with five years of credited service, or when the sum of the member's age and years of credited service equals or exceeds 80 years. The service age requirement for early retirement is age 55 with five years of credited service or any age below 50 with thirty years of credited service. The standard life annuity benefit formula is 2.3% of the average of the three highest annual salaries multiplied by the years of service. At normal retirement age, the minimum monthly standard annuity is the greater of $150, or the formula standard annuity. Total payments shall in no case be less than accumulated contributions at retirement.

As of September 1, 2005 several law changes will go into effect for all members except those exempted under the following categories: (1) those who are 50 years of age; (2) those whose age and service credit equal 70 or more; and (3) those who have 25 or more years of service. The main changes are using five years rather than three years to

determine the final average salary, eliminating subsidies for early retirements, and requiring age plus years of creditable service equal to 90 or greater for a partial lump sum option. Various changes affecting service credit will also go into effect.

At August 31, 2005, the number of participating employing districts was as follows.

Employing Districts

Public Schools, Service Centers, and Charter Schools	1,258
Colleges, Universities, and Medical Schools	102
Educational State Agencies	3
Total	1,363

Contribution requirements are not actuarially determined, but are legally established each biennium pursuant to the following state funding policy.

The State Constitution requires the Legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the System during that fiscal year. A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

The Teacher Retirement System also offers two other annuity payment options:

- The Deferred Retirement Option Plan (DROP)
  DROP allows members to freeze their standard annuity and, instead of retiring, to have a portion of the frozen standard annuity deposited into a DROP account while continuing to work for a TRS-affiliated employer. Members may elect to participate in the DROP program for up to five years. The plan is being discontinued for new participation effective December 31, 2005.
- A Partial Lump-Sum Cash Option (PLSO)
  The Partial Lump-Sum Cash Option reduces the standard monthly annuity. Prior to September 1, 2005, members could select a partial lump sum distribution equal to 12, 24, or 36 months of a standard monthly annuity. After September 1, 2005 PLSO eligibility for the program must meet the Rule of 90 as described above. This option is not available to those in DROP at the time of retirement, to those taking an early-reduced annuity, or to existing retirees (including disability retirees).

Annual Pension Cost and Net Pension Obligation

The state's annual pension cost and net pension obligation for plans subject to sole-employer provisions of GASB Statement No. 27 for fiscal year 2005 are presented below.

Annual Pension Cost and Net Pension Obligation
(Amounts in Thousands)

	ERS	LECOS	JRS1	JRS2	TRS*	FPC**
Annual Required Contribution, ARC	$ 321,860	$	$ 22,121	$ 5,723	$1,532,263	$ 2,897
Interest on Net Pension Obligation, NPO	(9,976)		6,913	(369)	(36,139)	N/A
Adjustment to ARC	6,161		(6,973)	228	28,901	N/A
Annual Pension Cost	318,045	0	22,061	5,582	1,525,025	2,897
Employer Contributions Made	276,035	0	22,297	8,365	1,257,672	1,891
Increase (Decrease) in NPO	42,010	0	(236)	(2,783)	267,353	N/A
Net Pension Obligation, September 1, 2004	(124,702)	0	86,418	(4,613)	528,976	N/A
Restatement				1	(980,716)	
Net Pension Obligation, September 1, 2004, as Restated	(124,702)	0	86,418	(4,612)	(451,740)	N/A
Net Pension Obligation/(Asset), August 31, 2005***	$ (82,692)	$ 0	$ 86,182	$ (7,395)	$ (184,387)	N/A

* The sole-employer provisions of GASB Statement No. 27 applies to TRS.

** An NPO calculation is not applicable for the FPC since contributions are received from member fire departments. The state's contribution, if any, would be insignificant. The ARC and Employer Contributions Made are from the 2004 actuarial.

*** See "Funding Information, Actuarial Methods, and Assumptions" table for actuarial assumptions used in determining cost and obligation.

Retirement Systems' Membership

	ERS*	LECOS*	JRS1*	JRS2*	TRS*	FPC**
Retirees and Beneficiaries Currently Receiving Benefits	65,720	5,070	491	81	248,509	1,625
Terminated Employees Entitled to Benefits But Not Yet Receiving Them	57,079	12	16	88	45,073	1,988
Current Employees: Vested and Non-Vested	131,331	37,150	43	491	831,671	4,548
Total Members	254,130	42,232	550	660	1,125,253	8,161

* Totals are from actuarial valuations as of August 31, 2005.

** This total does not include the 628 retirees and beneficiaries from the TLFFRA (Texas Local Firefighters Retirement Act) plan as of August 31, 2005.

Funding Information, Actuarial Methods, and Assumptions

(Amounts in Thousands)

	ERS	LECOS	JRS1	JRS2	TRS	FPC*
Contribution Rates						
Employees	6.0%	0.0%	6.0%	6.0%	6.4%	N/A
Legislators	8.0%	0.0%	0.0%	0.0%	0.0%	N/A
Employer**	6.0%	0.0%	100.8%	16.8%	6.0%	N/A
Annual Pension Cost	$318,045	$0	$22,061	$5,582	$1,525,025	$2,897
Employer Contributions Made***	$276,035	$0	$22,297	$8,365	$1,257,672	$1,891
Actuarial Valuation Date	August 31, 2005	August 31, 2005	August 31, 2005	August 31, 2005	August 31, 2005	August 31, 2004
Actuarial Cost Method	Entry Age	Entry Age	Entry Age	Entry Age	Entry Age Normal	Entry Age
Amortization Method	Level Percent Open	Level Percent Open	Level Dollar Open	Level Percent Open	Level Percent Open	Level Dollar Open
Remaining Amortization Period of Unfunded Liability	40 years	1 year****	40 years	26 years****	30 years	30 years
Asset Valuation Method	5-year Smoothed Fair Value	5-year Smoothed Fair Value	N/A	5-year Smoothed Fair Value	5-year Smoothed Market	5-year Smoothed Market
Actuarial Assumptions:						
Investment Rate of Return	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Projected Salary Increases	0.0%-10.8%	6.0%-14.0%	4.0%	4.0%	4.3%-26.4%	0.0%
Includes Inflation at	4.0%	4.0%	4.0%	4.0%	3.0%	4.0%
Cost-of-Living Adjustments	None-Employee 4.0%-Elected	None	4.0%	None	None	None

* Contributions and benefits are not based on the salaries of members.

** Contribution requirements for JRS2 are actuarially determined each even-numbered year. TRS and ERS contribution requirements are based on actuarial evaluations as established by state statute.

*** The 79th Legislature addressed funding problems for FPC with an appropriation for additional funding in the 2006-2007 biennium.

**** The amortization period was calculated based on estimated fiscal year 2006 covered payroll. At the end of fiscal year 2006 the ARC and the amortization period will be recalculated based on actual 2006 covered payroll.

Fire Fighters' Pension Commission

The Fire Fighters' Pension Commission is the administrator of two pension plans:

- The Texas Statewide Emergency Services Retirement Act (TSESRA) Fund; and
- The Texas Local Fire Fighters Retirement Act (TLFFRA).

TSESRA is a cost-sharing multiple-employer pension plan established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without pay. At August 31, 2005, there were 178 member fire departments participating in the pension system.

The funding policy, established by Vernon's Texas Civil Statute, Art. 6243e, requires monthly contributions from the member fire departments of at least $12 for each member fire fighter. Additional contributions by the member fire departments may be necessary to pay for unfunded prior service costs, and "buy backs" of vested benefits required by the state. The state may also be required to make a limited amount of annual contributions to make the fund actuarially sound. The contributions may not exceed the amount of one-third of the total of all contributions by governing bodies in

Schedule of Funding Progress
(Amounts in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Covered Payroll (c)	Excess/UAAL as a Percentage of Covered Payroll ((a-b)/c)
Employees Retirement System (ERS)						
8/31/05	$20,835,469	$ 21,969,670	$ (1,134,201)	94.8%	$ 4,842,525	(23.4)%
8/31/04	20,036,647	20,591,848	(555,201)	97.3%	4,616,761	(12.0)%
8/31/03	19,478,555	19,959,112	(480,557)	97.6%	4,800,612	(10.0)%
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)						
8/31/05	$ 698,814	$ 677,953	$ 20,861	103.1%	$ 1,283,815	1.6%
8/31/04	679,243	621,457	57,786	109.3%	1,230,581	4.7%
8/31/03	666,588	597,914	68,674	111.5%	1,277,894	5.4%
Judicial Retirement System Plan One (JRS1)						
8/31/05	$ 0	$ 327,145	$ (327,145)	0.0%	$ 5,284	(6,191.2)%
8/31/04	0	263,068	(263,068)	0.0%	4,921	(5,345.8)%
8/31/03	0	262,766	(262,766)	0.0%	3,710	(7,082.6)%
Judicial Retirement System Plan Two (JRS2)						
8/31/05	$ 164,231	$ 182,311	$ (18,080)	90.1%	$ 60,775	(29.7)%
8/31/04	145,538	123,913	21,625	117.5%	48,504	44.6%
8/31/03	129,426	111,116	18,310	116.5%	47,479	38.6%
Teacher Retirement System of Texas (TRS)						
8/31/05	$89,298,813	$102,494,536	$(13,195,723)	87.1%	$25,956,807	(50.8)%
8/31/04	88,783,871	96,736,525	(7,952,654)	91.8%	25,484,585	(31.2)%
8/31/03	89,033,024	94,263,028	(5,230,004)	94.5%	25,756,163	(20.3)%

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Excess of Assets over AAL (Unfunded AAL) (a) - (b)	Funded Ratio (a)/(b)	Total Members Covered (not rounded)	Excess/UAAL Per Member Covered (not rounded)
Texas Statewide Emergency Services Retirement Act (TSESRA)						
8/31/04	$ 38,141	$ 51,567	$ (13,426)	74.0%	7,994	1,680
8/31/02*	32,797	45,976	(13,179)	71.3%	7,669	1,718
8/31/00	36,768	36,049	719	102.0%	7,114	(101)

* Actuarial assumptions and methodology were changed for the August 31, 2002 valuation.

one year. Because the state's contribution is not significant, the state is not considered an employer; therefore the sole-employer reporting provisions of GASB Statement No. 27 for net pension obligation calculations are not applicable.

Eligible members include volunteer emergency service personnel who are members in good standing of a qualifying fire-fighting unit. Members are vested, beginning with the fifth year of service, at 5% per year of service for the first ten years and 10% for each of the next five years of service.

Upon reaching age 55, a vested member may retire and receive a monthly pension equal to his vested percentage multiplied by six times his governing body's average contribution over his years of service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 7% compounded annually.

Actuarial valuations are performed biennially. Death and disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump-sum amount and continuing monthly payments to a member's spouse and dependents.

The member fire department contributions to the fund for the years ending August 31, 2005, 2004, and 2003 were $1,476,065, $1,891,243, and $1,833,310, respectively, equal to the yearly statutorily required contributions.

TLFFRA, established by statute, is an agent multiple-employer plan. Actuarial valuations are not obtained for plans which are pay-as-you-go and, therefore, are not presented on the Schedule of Funding Progress. It is not cost beneficial to obtain valuations, and the TLFFRA assets are less than 1% of the TSESRA and TLFFRA plans combined.

Upon election, a department under TLFFRA can merge with the TSESRA plan. At August 31, 2005, there were 112 plans merged into the TSESRA plan. Benefit determinations for these plans are determined by each local governing board. Members under both plans are eligible for retirement service at age 55 with 5 years of service credited in the retirement system. Monthly benefits payable for service retirement is six times the average contribution rate per member. Authority for contributions is established by statute. Members vested under the TLFFRA plan will be paid by the Commission with funds received from the local governing bodies on a pay-as-you-go basis. The liabilities of the TLFFRA pension plan are always equal to the assets and, therefore, there is no fund balance.

Contributions are not actuarially determined and the state has no legal obligation for benefit payments. As of August 31, 2005, membership consisted of 628 retirees and beneficiaries.

Trend Information

Trend information gives an indication of the progress made in accumulating sufficient assets to pay benefits when due.

Included in the audited financial reports for the Employees Retirement System of Texas, the Teacher Retirement System of Texas, and the Fire Fighters' Pension Commission are:

(1) Schedules of funding progress that include historical trend information about the actuarially determined funded status of the plan from a long-term on-going plan perspective and the progress made in accumulating sufficient assets to pay benefits when due.

(2) Schedules of employer contributions that include historical trend information about the Annual Required Contributions of the employer (ARC) and the contributions made by the employers in relation to the ARC.

The table on the previous page presents the funding progress for the three most recent actuarial valuations of each plan. The table on the following page presents the three-year trend information regarding annual pension cost and net pension obligation of the plans. The TLFFRA plan which is not funded in advance is not included in the funding progress or the three-year trend information tables.

Three–Year Trend Information
(Amounts in Thousands)

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
Employees Retirement System (ERS)			
8/31/05	$ 318,045	86.8%	$ (82,692)
8/31/04	307,591	90.7%	(124,702)
8/31/03	306,941	98.2%	(153,448)
Law Enforcement and Custodial Officer Supplemental Retirement (LECOS)			
8/31/05	$ 0	0.0%	$ 0
8/31/04	0	0.0%	0
8/31/03	0	0.0%	0
Judicial Retirement System Plan One (JRS1)			
8/31/05	$ 22,061	101.1%	$ 86,182
8/31/04	21,802	103.8%	86,418
8/31/03	29,576	275.2%	87,237
Judicial Retirement System Plan Two (JRS2)			
8/31/05	$ 5,582	149.9%	$ (7,395)
8/31/04	5,724	143.3%	(4,613)
8/31/03	7,710	92.9%	(2,132)
Teacher Retirement System of Texas (TRS)*			
8/31/05	$1,525,025	82.5%	$(184,387)
8/31/04	1,517,808	81.0%	(451,740)
8/31/03	1,461,335	84.0%	727,759
Texas Statewide Emergency Services Retirement Act (TSESRA)**			
8/31/04	$ 2,897	65.0%	N/A
8/31/02 ***	1,768	100.0%	N/A
8/31/00 ****	1,470	100.0%	N/A

* Actuary numbers for fiscal years 2003 and 2004 were restated based on a 30-year amortization.

** TSESRA is not subject to NPO calculation since the state's contributions are insignificant.

*** Actuarial assumptions and methodology were changed for the August 31, 2002 valuation.

**** APC and percentage are updated to current actuarial numbers.

Note 10
Deferred Compensation

The state's deferred compensation plan complies with the Internal Revenue Code Section 457 and is accounted for according to the provisions of Governmental Accounting Standards Board (GASB) Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. This statement establishes accounting and financial reporting standards for Internal Revenue Code Section 457 relating to deferred compensation plans of state and local governments.

The plan permits employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of deferred compensation, all property and rights purchased with those amounts and all income attributed to those amounts, property, or rights are held in trust by the Board of Trustees for the exclusive benefit of participants and their beneficiaries and may not be used for, or diverted to, any other expense except to defray the reasonable expenses of administering the plan. The state has no liability for losses under the plan, but does have the duty of due care that would be required of an ordinary prudent investor.

The deferred compensation plan balances are recorded in pension trust funds at fair value. The estimated fair value of the aggregate deferred compensation plan assets was $293 million as of August 31, 2005.

The state also administers another plan, "TexaSaver," created in accordance with Internal Revenue Code Section 401(k). However, the assets of this plan do not belong to the state nor does the state have a liability related to this plan.

Note 11
Postemployment Health Care and Life Insurance Benefits

In addition to providing pension benefits, the state administers four programs which provide health care and life insurance benefits for retired employees, their spouses, and beneficiaries. Benefits are authorized by statute and contributions are determined by the General Appropriations Act.

The Employees Retirement System (ERS) administers the program for state retirees with at least 10 years of state service under the retirement programs of ERS or the Teacher Retirement System (TRS). Retirees who elected to participate in the Optional Retirement Program are eligible for these benefits, providing that contributions have not been withdrawn.

Public school district retirees that are members of TRS are also eligible for the health care benefits.

The University of Texas System and the Texas A&M University System provide separate post-employment health care and life insurance coverages to their retirees, surviving spouses, and beneficiaries. Substantially all of the employees under the university systems that reach normal retirement age while working for the state may become eligible for the health and life insurance benefits.

For the year ended August 31, 2005, the state made monthly contributions for health care and life insurance. Contribution rates are shown below. Costs are estimated by an actuary for claims expected to be paid during the year. The retiree contributes any premium over and above state contributions.

State Contribution Rates – Retiree Health and Basic Life Premium

For the Fiscal Year Ended August 31, 2005

Level of Coverage	TRS	ERS	Texas A&M University	University of Texas*
Retiree Only	$ 316	$ 316	$ 288	$ 302
Retiree/Spouse	$ 496	$ 496	$ 420	$ 460
Retiree/Children	$ 436	$ 436	$ 371	$ 403
Retiree/Family	$ 616	$ 616	$ 486	$ 562

* The amounts shown for the University of Texas represent self-funded insurance. The monthly contribution per full-time retirees participating in the fully insured programs (HMO's) ranged from $291 to $621 depending upon the region and the level of coverage selected.

TRS administers a program that provides benefits to public school district retirees with at least 10 years of service. The Texas Public School Retired Employees Group Insurance Program (TRS-Care) provides a free basic level of coverage for eligible retirees and optional coverage for eligible retirees and their dependents. Basic coverage includes participation in a major medical group health insurance plan with deductibles based upon enrollment in Part A of Medicare. The deductible is $1,800 for those enrolled, $3,000 for those eligible but not enrolled, and $4,000 for those not eligible. Funding for free basic coverage is provided based on public school district payroll. The State of Texas and active school employee contribution rates are 1.0% and .50% of school district payroll, respectively.

The cost of state retirees' health care and life insurance benefits and TRS-Care is financed on a pay-as-you-go-basis. The expenditures are recognized when reimbursements are made for claims paid by non-state entities or when premiums are paid.

Expenditures recognized for fiscal year 2005 for retiree health and life insurance benefits paid for by the state are shown below.

Post Employment Health Care and Life Insurance

Benefits Provided Through:	Number of Retirees	Cost (In Thousands)
Employees Retirement System	72,152	$306,854
University of Texas System	14,444	30,800
Texas A&M University System	5,917	24,763
Teacher Retirement System (Public School District Employees)	149,443	266,570
Total	241,956	$628,987

Administrators of the ERS and TRS plans for Other Post Employment Benefits (OPEB) will be implementing GASB Statement 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, in fiscal year 2007. The State of Texas will be implementing GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, in fiscal year 2008. Implementation of these statements does not require the state to change its current funding of OPEB which is on a pay-as-you-go basis. However, implementation will require actuarial valuations and recognition of a liability for expenses in excess of the annual contributions based on current funding methods. It is anticipated that this recognition of the OPEB liability and expense could significantly impact the net assets of the state.

Note 12
Interfund Activity and Transactions

Interfund activity refers to financial interactions between funds and/or blended component units and is restricted to internal events. Interfund transactions under GASB Statement No. 34 refers to financial interactions with legally separate entities, i.e., discrete component units and other governments and are restricted to external events.

Reciprocal Interfund Activity

Interfund loans are reciprocal interfund activity between funds and blended component units with a requirement for repayment. These loans are reported as interfund receivables/payables, classified as either current or non-current.

Interfund services are sales and purchases of goods and services between funds for a price approximating their external exchange value. This activity is reported as revenues in seller funds and expenditures or expenses in purchaser funds. Unpaid amounts are reported as receivables and payables.

Nonreciprocal Interfund Activity

Interfund transfers are nonreciprocal interfund activity. This activity refers to flows of assets without equivalent flows of assets in return and without a requirement for repayment. In governmental funds, transfers are reported as other financing sources or uses. In proprietary funds, transfers are reported after non-operating revenues and expenses. The majority of transfers are legally authorized by statute or bond covenant to move amounts from one fund to another. Amounts not transferred at fiscal year end are accrued as Due From/Due To. Activity occurring within the same fund has been eliminated. Additional eliminations have been made and transfers in and out have been netted and presented in the Government-wide Statement of Activities as "Transfers-Internal Activities".

According to GASB Statement No. 34, certain reclassifications and eliminations have been made between the fund financial statements and the government-wide financial statements. Resource flows between the primary government and its discretely presented component units have been reported as revenues and expenses, as if they were external transactions on the fund financial statements and the government-wide financial statements. Transfers between the governmental or business-type activities and the fiduciary funds have been reported as transfers on the fund financial statements and were reclassified to revenues and expenses, as if they were external transactions on the government-wide financial statements.

Due From/Due To amounts between the primary government and the discretely presented component units are reported separately from Due From/Due To amounts between funds in the fund financial statements and the government-wide financial statements, according to GASB Statement No. 34. Due From/Due To amounts between governmental or business-type activities and fiduciary funds are reported as Due From/Due To amounts between funds in the fund financial statements and are reclassified to Receivables From Fiduciary Funds/Payables To Fiduciary Funds, as if they were external transactions on the government-wide financial statements.

Interfund reimbursements are repayments from funds responsible for payment of expenditures or expenses to the funds that actually made the payment. Reimbursements are not displayed in the financial statements.

The non-current interfund receivables/payables include loans for energy efficiency programs of approximately $21 million. There is also a $304 million receivable for Texas A&M System from the University of Texas System from Permanent University Funds. The earnings will be used for bond payments. Significant transfers include a $1 billion transfer from lottery earnings to the Foundation School Fund for educational programs, a $594 million transfer from the General Revenue Fund to the Economic Stabilization Fund, a $2.1 billion transfer from the General Revenue Fund to the Highway Fund, a $719 million transfer from the General Revenue Fund and an $880 million transfer from the Permanent School Fund, both to the Available School Fund. The detail of interfund activity and transactions by fund type and category as of August 31, 2005 is shown on the following pages.

Interfund Receivables/Payables per the Fund Statements

(Amounts in Thousands)

Fund Type	Current		Non-Current		Total	
	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables	Interfund Receivables	Interfund Payables
Interfund Receivables/Payables Within the Primary Government						
Governmental Funds						
General Fund	$ 403	$ 30	$ 21,249	$	$ 21,652	$ 30
Nonmajor Governmental Funds	371	670		2,478	371	3,148
	774	700	21,249	2,478	22,023	3,178
Proprietary Funds						
Colleges and Universities	4,310	4,310	304,625	323,396	308,935	327,706
Nonmajor Enterprise Funds	30	75			30	75
	4,340	4,385	304,625	323,396	308,965	327,781
Fiduciary Funds						
Private-Purpose Trust Funds						
Agency Funds		29				29
	0	29	0	0	0	29
Total Interfund Receivables/Payables Within the Primary Government	$ 5,114	$ 5,114	$ 325,874	$ 325,874	$ 330,988	$ 330,988

Due From/Due To per the Fund Statements

(Amounts in Thousands)

Fund Type	Due From			Due To		
	Other Funds	Primary Government	Component Unit	Other Funds	Primary Government	Component Unit
Due From/Due To Within the Primary Government						
Governmental Funds						
General Fund	$156,817	$	$ 15	$669,755	$	$ 286
State Highway Fund	199,961			1,274		
Permanent School Fund	23,946			24,151		
Nonmajor Governmental Funds	90,374			33,152		
	471,098	0	15	728,332	0	286
Proprietary Funds						
Colleges and Universities	381,543		10	11,998		
Texas Water Development Board Funds				4,630		
Texas Department of Transportation Turnpike Authority	221					
Nonmajor Enterprise Funds	33,412			11,064		
Internal Service Fund	192			846		
	415,368	0	10	28,538	0	0
Fiduciary Funds						
Pension and Other Employee Benefit Trust Funds	15,124			144,407		
Agency Funds	46			359		
	15,170	0	0	144,766	0	0
Total Due From/Due To Within the Primary Government	$901,636	$ 0	$ 25	$901,636	$ 0	$ 286
Due From/Due To Outside the Primary Government						
Discretely Presented Component Units		$ 286			$ 25	
Total Due From/Due To Outside the Primary Government	$ 0	$ 286	$ 0	$ 0	$ 25	$ 0
Total Due From/Due To			$901,947			$901,947

Internal Balances per the Government-Wide Financial Statements

(Amounts in Thousands)

	Governmental Activities	Business-Type Activities	Total
Non-Current Assets			
Internal Balances-Receivables	$ 18,772	$ (18,772)	$ 0
Current Liabilities			
Internal Balances-Payables	$ 387,440	$ (387,440)	$ 0

Transfers In/Out per the Fund Statements

(Amounts in Thousands)

Fund Type	Transfers In Other Funds	Transfers Out Other Funds
Governmental Funds		
General Fund	$ 2,134,587	$ 9,857,213
State Highway Fund	2,533,827	156,092
Permanent School Fund		879,981
Nonmajor Governmental Funds	2,819,072	1,354,357
	7,487,486	12,247,643
Proprietary Funds		
Colleges and Universities	4,583,673	654,287
Texas Water Development Board Funds	3,131	5,565
Texas Department of Transportation Turnpike Authority	105,961	
Nonmajor Enterprise Funds	4,711	1,092,523
	4,697,476	1,752,375
Fiduciary Funds		
Pension and Other Employee Benefit Trust Funds*	2,130,610	314,457
Private-Purpose Trust Funds*	20	1,117
	2,130,630	315,574
Total Transfers In/Out	$ 14,315,592	$ 14,315,592

* The Pension and Private Purpose Trust Fund Operating Transfers In include both the Transfers In and Out of Contributions and the Transfers In and Out line items.

Transfers In/Out per the Government-Wide Financial Statements

(Amounts in Thousands)

Fund Category	Other Funds
Governmental Activities	$ (2,966,197)
Business-Type Activities	$ 2,966,197

Note 13
Governmental Fund Balances – Reserved, Unreserved/Designated and Unreserved/Undesignated

A summary of the nature and purposes of governmental fund balances is shown in the table below by fund type at August 31, 2005. This note only ties to the governmental fund financial statements. The government-wide, proprietary, and fiduciary restrictions are listed on the face of their statement of net assets.

Governmental Fund Balances – Reserved, Unreserved/Designated, Unreserved/Undesignated

(Amounts in Thousands)

Major Funds	
General Fund - Reserved:	
Encumbrances	$ 1,101,676
Inventories	153,390
Imprest Accounts	3,457
Loans and Contracts	77,659
Non-Current Interfund Receivables	21,634
Non-Current Tax Receivables	339,725
Health and Human Services	44,694
Natural Resources and Recreation	9,798
	$ 1,752,033
General Fund - Unreserved/Undesignated	$ 285,756
State Highway Fund - Reserved:	
Encumbrances	$ 112,826
Inventories	82,512
Imprest Accounts	398
Loans and Contracts	235,295
	$ 431,031
State Highway Fund - Unreserved/Designated:	
Transportation	$ 46,396
Permanent School Fund - Reserved:	
Encumbrances	$ 555
Loans and Contracts	1,483
Public School Support	22,097,753
	$22,099,791
Nonmajor Funds	
Special Revenue Funds - Reserved:	
Encumbrances	$ 24,769
Inventories	503
Imprest Accounts	9
Loans and Contracts	848,416
	$ 873,697
Special Revenue Funds - Unreserved/Designated:	
General Government	$ 46,366
Regulatory Services	122,529
Health and Human Services	12,788
Natural Resources and Recreation	114,943
Education	298,646
Transportation	808,616
Public Safety and Corrections	9,350
Employee Benefits	71
Teacher Retirement Benefits	208
	$ 1,413,517
Debt Service Funds - Reserved:	
Debt Service	$ 213,165
Capital Projects Funds - Reserved:	
Encumbrances	$ 74,690
Inventories	85
Capital Projects	85,959
	$ 160,734
Capital Projects Funds - Unreserved:	
Designated:	
General Government	$ 2
Public Safety and Corrections	1,959
Total Unreserved/Designated	1,961
Undesignated:	
General Government	448
Health and Human Services	(5,947)
Public Safety and Corrections	40
Natural Resources and Recreation	3,217
Total Unreserved/Undesignated	(2,242)
	$ (281)
Permanent Funds - Reserved:	
Encumbrances	$ 112
Education	496,072
	$ 496,184
Permanent Funds - Unreserved:	
Designated:	
Permanent Health Fund	$ 532,178
Undesignated:	
General Government	13,313
Education	9
Natural Resources and Recreation	285
Total Unreserved/Undesignated	13,607
	$ 545,785
All Governmental Funds	
Reserved	$26,026,635
Unreserved/Designated	1,994,052
Unreserved/Undesignated	297,121
Total Fund Balances - Governmental Funds	$28,317,808

Note 14
Adjustments to Fund Balances/ Net Assets

During fiscal year 2005, certain accounting changes and adjustments were made which required the restatement of fund balance or net assets as shown and discussed below.

Restatements to Fund Balance/Net Assets
(Amounts in Thousands)

	August 31, 2004, As Previously Reported	Restatements	August 31, 2004, As Restated
Governmental Funds and Government-Wide Activities			
Major Funds:			
General Fund	$ (376,233)	$ (335,468)	$ (711,701)
State Highway Fund	653,907		653,907
Permanent School Fund	19,900,935	(16,799)	19,884,136
Total Major Funds	20,178,609	(352,267)	19,826,342
Nonmajor Funds:			
Special Revenue Funds	1,863,527	39,214	1,902,741
Debt Service Funds	220,305		220,305
Capital Project Funds	110,047	(52)	109,995
Permanent Funds	917,830		917,830
Total Nonmajor Funds	3,111,709	39,162	3,150,871
Total Governmental Funds	23,290,318	(313,105)	22,977,213
Governmental Activities:			
Capital Assets Net of Accumulated Depreciation	54,373,317	(25,478)	54,347,839
Long-Term Liabilities	(5,260,993)	973,252	(4,287,741)
Other Adjustments	1,661,978		1,661,978
Internal Service Fund	96,160		96,160
Total Governmental Activities	50,870,462	947,774	51,818,236
Total Governmental Funds and Government-Wide Activities	74,160,780	634,669	74,795,449
Proprietary Funds and Business-Type Activities			
Major Funds:			
Colleges and Universities	26,870,719	(708,879)	26,161,840
Texas Water Development Board Funds	1,632,173		1,632,173
Texas Turnpike Authority	336,219		336,219
Nonmajor Enterprise Funds	1,057,545	(40,155)	1,017,390
Total Enterprise Funds and Business-Type Activities	29,896,656	(749,034)	29,147,622
Fiduciary Funds			
Pension and Other Employee Benefit Trust Funds	104,066,096	238,285	104,304,381
External Investment Trust Funds	10,225,469	(2,977)	10,222,492
Private-Purpose Trust Funds	2,616,985	(237,981)	2,379,004
Total Fiduciary Funds	116,908,550	(2,673)	116,905,877
Total Primary Government	220,965,986	(117,038)	220,848,948
Discretely Presented Component Units	285,631	(63,272)	222,359
Total Reporting Entity	$221,251,617	$ (180,310)	$221,071,307

Restatements by Activity
(Amounts in Thousands)

Restatements	Governmental Activities	Business-Type Activities	Fiduciary Activities	Component Units	Total Restatements
A.	$ (359,817)	$ (197,962)	$ (2,977)	$ (983)	$ (561,739)
B.	(25,478)	(578,164)		(3,275)	(606,917)
C.	980,715				980,715
D.	39,249	(39,249)	304		304
E.		66,341		(59,014)	7,327
Total Restatements	$ 634,669	$ (749,034)	$ (2,673)	$ (63,272)	$ (180,310)

A. These are miscellaneous restatements and other changes necessary to correct for accounting errors in the prior period that resulted in the over or understatement of revenues and/or expenditures.

B. This restatement is for adjusting capital assets and accumulated depreciation. This year there was a change in how library books would be recognized in the State Property Accounting system. This change makes up ($182,954) of the total restatement reported for capital assets and depreciation.

C. This restatement is for Pension adjustments of prior fiscal years to reflect the 30 year maximum acceptable amortization period permitted by Governmental Accounting Standards Board Statement 25.

D. This restatement is for the restatement of funds from a particular fund type to another. The overall positive balance is due to some Agency Funds being reclassed to other fund types.

E. This restatement recognizes the change from component units to blended units for some Universities.

Note 15
Contingent Liabilities

The state has been named as a defendant in routine legal proceedings, which normally occur in governmental operations. The recurring pattern of such litigation is not likely to have a materially adverse effect on the state's revenues or expenditures. Potential claims have been classified into the following categories to facilitate disclosure.

Protested Tax Payments

As of August 31, 2005, the state held protested tax payments of $86.9 million, the majority of which were held by the State Comptroller. The taxes included state sales and use tax, franchise tax, insurance premium and maintenance taxes, surtaxes, and various other fees under protest. In addition, plaintiffs have filed lawsuits seeking refunds for franchise, sales, insurance, motor vehicle sales and use, and oil and gas production taxes totaling $674.9 million. Although the outcome of these cases cannot presently be determined, adverse rulings in some of them could result in significant additional refunds.

Unpaid Claims and Lawsuits

A variety of cases with claims totaling $687.5 million have been filed which may affect the state. While the outcome of these cases cannot be determined, adverse rulings could result in additional liabilities. Included are a number of lawsuits and claims that may be significant to individual state agencies. The Texas Department of Transportation faces a potential liability of $59.4 million from litigation and contractual claims. The Department of Family and Protective Services is potentially impacted from civil rights, discrimination, and tort claims of $555.8 million.

Outstanding Loan Commitments

The state makes loan commitments to political subdivisions for financing purposes to be provided from remaining current bond proceeds, future bond proceeds, and from federal drawdowns.

The Texas Water Development Board has loan commitments totaling $927.3 million as of August 31, 2005. The Texas Affordable Housing Corporation has committed $1 million for down payment assistance for the state's low to moderate-income citizens that are not able to meet traditional lending requirements.

Federal Assistance

The state also receives federal financial assistance, which is subject to review or audit by federal grantor agencies. Entitlement to this assistance is generally conditional upon compliance with the terms and conditions of grant agreements and applicable federal regulations, including the expenditure of assistance for allowable purposes. Any disallowance as a result of the audits may become a liability of the state. The state estimates that the ultimate disallowance pertaining to these grants, if any, will be immaterial to its overall financial condition.

Arbitrage

Rebatable arbitrage is defined by Internal Revenue Code Section 148 as earnings on investments purchased with the gross proceeds of a bond issue in excess of the amount that would have been earned if the investment were invested at a yield equal to the yield on the bond issue. The rebatable arbitrage must be paid to the federal government. State agencies and universities responsible for investments from bond proceeds carefully monitor their investments to restrict earnings to a yield less than the bond issue and, therefore, limit any state arbitrage liability. The state estimates that rebatable arbitrage liability, if any, will be immaterial to its overall financial condition.

Guaranteed Debt

At August 31, 2005, $35.230 billion in debt had been guaranteed by the Permanent School Fund for 2,189 outstanding bond issues in 729 school districts in the state. Under state statute, payments by the Permanent School Fund on such guarantees are recoverable from the State of Texas. The $35 billion represents principal amount and does not reflect any subsequent accretions in value for compound interest bonds (zero coupon securities). The amount also excludes bonds that have been refunded and released from the Bond Guarantee Program.

Partnerships

The University of Texas System has invested in certain limited partnerships. The partnership agreements commit the System to possible future capital contributions amounting to $1.1 billion as of August 31, 2005. The Teacher Retirement System has $1.9 billion in remaining commitments for private equity domestic and international partnerships.

Note 16
Subsequent Events

Primary Government

State agencies and universities have issued over $181 million in new bonds and commercial paper and over $245 million in refunding bonds since August 31, 2005. This routine activity finances state facilities, housing assistance programs, educational loans, and refunds outstanding debt.

Texas Public Finance Authority (TPFA) issued $55.37 million in revenue bonds and $17 million in Commercial Paper Notes for various agencies.

The total amount of bonds issued also includes the issuance of over $76 million in refunding bonds by the General Land Office.

The Texas Department of Housing and Community Affairs issued $16.1 million in multi-family revenue bonds on September 29, 2005.

Also in September 2005, the Texas Workforce Commission and its advisors determined that sufficient balances existed in the Obligation Assessment Fund to enable redemption of some of the variable rate bonds (series C & D). The following redemptions were made: September 14, 2005, $32 million and October 5, 2005, $34.8 million. These transactions will reduce the amount of debt remaining, if any, in the last year of the bond debt service, and also reduce interest paid by lowering the principal outstanding, by selectively redeeming variable rate bonds with the highest interest rates.

On December 1, 2005, the Texas Water Development Board issued $49.3 million in refunding bonds.

On December 20, 2005, the Texas State Technical College System (TSTC) issued $15.7 million in TSTC Constitutional Appropriation Bonds.

In October 2005, the Board of Regents of the University of North Texas System (UNT) sold Revenue Financing System Refunding and Improvement Bonds, Series 2005,

totaling $76.8 million. The proceeds will be used for the following purposes: to advance refund a portion ($37.7 million par value) of the outstanding University and HSC bonds in order to reduce debt service requirements; to refund a portion of the System's outstanding commercial paper notes which were issued to provide interim financing for various System improvement projects; to purchase, construct, improve, renovate, and equip property, buildings, and infrastructure of the University, including $14.6 million for the construction of a $17.1 million student wellness and career center; and $23.3 million to construct and equip a building for the UNT-Dallas campus including a library, classrooms, offices, and related parking. A portion of the $17.1 million construction cost for the student wellness and career center will be funded by a combination of student services fees, student services fees reserves, and gifts. The Legislature authorized the System to issue $22.5 million in tuition revenue bonds, and appropriated the first two years of debt service in the 2004-2005 biennium. The authorization was for the purpose of developing the campus and facilities at the new University of North Texas at Dallas campus located in the southern part of Dallas County. It will be built on 250 acres that were jointly donated to the System by the City of Dallas and private developers. As a portion of the Series 2005 bonds sold in October 2005 discussed above, $23.3 million of the original authorization was issued. A portion of the remaining authorization was used to issue $1.9 million in commercial paper notes for costs related to the construction of the UNT-Dallas facility.

On September 1, 2005, Texas State University System issued $43.3 million of revenue bonds. The bonds ($15 million) are to be used for a building project on the campus of Sam Houston State University. The remaining bonds ($28.25 million) are to be used to refund certain outstanding bonds for a debt service savings of $1.3 million.

The Texas A&M University System intends to issue up to $110 million of Revenue Financing System Commercial Paper Notes, Series B and $20 million of Permanent University Fund Flexible Rate Notes during fiscal year 2006. In addition, during fiscal year 2006, the A&M System intends to issue Revenue Financing System Bonds or Permanent University Fund Bonds to refund currently outstanding bonds for savings (if economical) and to pay the costs of issuing the bonds.

The Texas Tech University System intends to issue Revenue Financing System Bonds during fiscal year 2006 in the amount of approximately $100 million of which $30 million of this amount has already been issued as commercial paper as of August 31, 2005. In addition, another $100 million of existing bonds may be re-financed in this issuance.

Section 55.017 49 of House Bill 28 of the 78th Texas Legislature provided authorization for Texas Tech University Health Science Center (TTUHSC) to issue $45 million of additional Revenue Financing System bonds for construction of a medical education building at the El Paso campus. TTUHSC intends to issue the entire $45 million during fiscal year 2006.

The Board of Angelo State University has approved the issuance of bonds to provide funds to acquire, construct, improve, renovate, enlarge, or equip property, buildings, structures, or facilities and for paying costs related to the issuance of bonds. All authorized bonds have been issued. Bond principal is due in annual installments, with interest being paid semi-annually; total yearly payments vary from $7.4 million to $20 million. The final installment is due in 2018.

In early December, 2005, the University of Texas System plans to issue $100 million of PUF Flexible Rate Notes, Series A, to finance costs of various campus improvements.

U.T. Southwestern Moncrief Cancer Center, a blended component unit of the U.T. Southwestern Medical Center at Dallas, has entered into negotiations for the sale of approximately $8 million of operating assets and sublease of the majority of space in its three facilities. It is anticipated that there will be no significant loss on the book value of the assets sold. U.T. Southwestern Moncrief Cancer Center expects to complete this transaction during the first half of fiscal year 2006. There can be no assurance that the sale will be consummated.

The Governor vetoed the appropriations for the Texas Military Facilities commission for the Biennium of 2006 and 2007. The functions and personnel will be transferred to the Adjutant General's Department effective September 1, 2005.

Two natural disasters, Hurricanes Katrina and Rita, occurred in August and September of 2005, respectively. Numerous state agencies and universities were affected and incurred various types of expenses after August 31, 2005, related to these disasters. For many of them, expenses are still being incurred and the total cost cannot be reasonably estimated at this time. However, it could be material to the state. Others can estimate their total cost, and these costs are listed below.

Texas Department of Transportation: Estimated total costs are less than $30 million dollars.

Texas Commission on Environmental Quality: Estimated total costs are $325,000.

Texas Building and Procurement Commission: As of October 27, 2005, actual expenditures totaled $1,132,823. Future expenses are estimated to be $7,460,004.

Texas State Library and Archives Commission: Estimated total costs are $200,000.

Department of Family and Protective Services: Hurricane Rita actual costs to date total $38,013. Estimated future costs total $141,896. Hurricane Katrina actual costs to date total $222,434. Estimated future costs total $516,692.

Department of State Health Services: Total expenditures were $22,167,823 for costs associated with Hurricane Katrina and donated vaccines were $2,739,050. Total expenditures were $2,535,912 for costs associated with Hurricane Rita.

University of Texas System (U.T. System): Estimated revenue lost is approximately $42 million. While the System maintains business interruption insurance, this incident was not covered. The physical structures sustained property damage of approximately $2.3 million at U.T. Medical Branch at Galveston, U.T. Health Science Center at Houston, and U.T. M.D. Anderson Cancer Center. The U.T. System maintains property insurance coverage for this through its self-funded comprehensive property protection program.

Payments from insurance and the Federal Emergency Management Agency (FEMA) are expected to cover some portion of the total costs incurred. However, it is unknown exactly how much of the costs will be reimbursed. Therefore, a reasonable estimate cannot be determined.

Component Unit

On October 1, 2005, the Texas State Affordable Housing Corporation issued $20 million in single-family bonds under the Fire Fighter and Law Enforcement or Security Officer Home Loan Program (Series 2005B).

Note 17
Risk Management

It is the policy of the state and its agencies to periodically assess the proper combination of commercial insurance and self-insurance to cover the risk of losses to which it may be exposed. The state is not involved in any risk pools with other governmental entities.

Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported.

For workers' compensation and unemployment compensation claims, the state is generally self-insured and funds such liabilities on a pay-as-you-go basis. The state assumes substantially all risks associated with tort claims and liability claims against the state or its agencies due to conditions of property, vehicles, aircraft, or watercraft.

The Texas Employees Group Benefits Program (GBP) provides health, life, accidental death and dismemberment (AD&D), disability, and dental insurance coverage to state and higher education employees, retirees, and their dependents. Coverage is provided through a combination of insurance contracts, a self-funded health plan, a self-funded dental indemnity plan, health maintenance organization (HMO) contracts, and dental health maintenance organization (DHMO) contracts. Effective September 1, 1992, the Employees Retirement System of Texas (ERS) implemented a self-funded managed care health plan, HealthSelect of Texas. The managed care arrangement includes provider fee negotiations and utilization management. HealthSelect is administered by Blue Cross and Blue Shield of Texas, Inc.

The administrative contract involves no transfer of risk to the administrator. The state's Group Insurance Fund retains all risk under HealthSelect. The GBP also includes

HMOs to provide health care services in lieu of coverage under HealthSelect. There is a full transfer of risk to the HMOs. The state retains no risk beyond the payment of premiums. The life, AD&D, and disability insurance coverages are administered by Group Life and Health (the carrier), a division of Fort Dearborn Life Insurance Company. The carrier, not the fund, is liable in the event claims exceed the claims portion of premium. The AD&D insurance is fully insured. The ERS approved two dental plans for fiscal year 2005, a dental health maintenance organization (DHMO) administered by Aetna Dental, Inc., and a dental indemnity plan administered by the Government Employees Hospital Association (GEHA). The DHMO is fully insured with all risk transferred to Aetna Dental, Inc. Beginning September 1, 1997, the dental indemnity plan became self-funded by ERS with all risk retained by the Group Insurance Fund.

The 77th Texas Legislature enacted the Texas School Employees Uniform Group Health Coverage Act, establishing a new statewide health coverage program for public school employees and their dependents. The Teacher Retirement System administers this program. Enrollment commenced in September 2002. The new plan took effect September 1, 2002, and includes employees of most small to mid-size districts, charter schools, education service centers, and certain other employers.

A number of state universities have self-insurance plans providing various coverages in the areas of workers' compensation, unemployment compensation, employee health, and medical malpractice on a funded or pay-as-you-go basis. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Estimates of liabilities for incurred (both reported and unreported), but unpaid claims are actuarially determined based on estimates of the ultimate cost of settling claims, using past experience adjusted for current trends, and any other factors that would modify past experience. There have been no significant reductions in insurance coverage in the past year and losses did not exceed funding arrangements during the past three years.

The following table presents the changes in claims liability reported in various balance sheet/statement of net assets liability accounts for the General Fund government-wide governmental activities, Enterprise Funds, Internal Service Fund, and Colleges and Universities during fiscal years ending August 31, 2004 and August 31, 2005. Claims and judgement amounts presented in Note 5 (Long-Term Liabilities) are also included in the table.

Changes in Claims Liability Balances
(Amounts in Thousands)

	Beginning Balance	Increases	Decreases	Ending Balance	
2005	$2,815,378	$1,900,150	$ 3,924,322	$ 791,206	*
2004	$2,696,561	$1,863,201	$ 1,744,384	$2,815,378	

* This amount includes an adjustment to decrease the claims liability balance for the Texas Guaranteed Tuition Plan which does not meet the scope of GASB 10.

Note 18
Contested Taxes

Taxpayers may petition for a formal hearing before an independent administrative law judge if they wish to challenge a tax liability assessed by the state. If the request for a determination hearing is received within a specified time, the taxpayer does not have to pay the tax until a final decision is reached. Collectibility of these assessments is dependent upon the decisions of administrative law judges. These assessments are not recognized as tax revenue until the administrative hearing is final. Therefore, these amounts are not included in the receivables reported in the financial statements. As of August 31, 2005, the redetermination hearings process had an estimated amount of $393 million.

Note 19
Component Units and Related Organizations

Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. Component units can also be other organizations for which the nature and significance of their relationship with a primary government are such that exclusion would cause the reporting entities financial statements to be misleading or incomplete. In addition, component units can be organizations that raise and hold

economic resources for the direct benefit of a government unit. Because of the closeness of their relationships with the primary government, some component units are blended as though they are part of the primary government. However, most component units are discretely presented. None of the component units for the State of Texas meet the criteria for major component unit presentation and those presented are for information purposes of interested parties. The component units are reported for the year ended August 31, 2005, unless indicated otherwise. There are no material blended component units of the state.

Discretely Presented Component Units

The state is financially accountable for the following legally separate entities (component units); however, the units do not provide services entirely or almost entirely to the state. The component unit's financial data is discretely presented in the Component Units column of the state's financial statements.

State Bar of Texas is a public corporation and an administrative agency of the judicial branch of government. The purpose of the State Bar is to ensure that public responsibilities of the legal profession are effectively discharged. The State of Texas has the ability to impose its will upon the State Bar through its budget approval powers. The State Bar is reported for the year ended May 31, 2005. Separate financial statements may be obtained by contacting the State Bar of Texas at P.O. Box 12487, Austin, Texas 78711.

Texas Agricultural Finance Authority (Authority) is a legally separate entity within the Texas Department of Agriculture (TDA) and is financially accountable to the state. The Governor, with the advice and consent of the Senate, appoints seven of the nine members of the board of directors. The Commissioner of TDA administers the Authority with the assistance of the board. The Authority was created to provide financial assistance for the expansion, development, and diversification of agricultural businesses. The Authority primarily benefits the citizens of Texas. Separate financial statements may be obtained by contacting the TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas On-Site Wastewater Treatment Research Council (Council) awards competitive grants and contracts to support applied research, demonstration projects, and information transfer regarding on-site wastewater treatment. The Council is not an advisory council and does not regulate the on-site wastewater industry in the State of Texas. In order to emphasize that the Council is a legally separate entity, its financial information is presented in a separate column in the Texas Commission on Environmental Quality's combined financial statements.

Texas Appraiser Licensing and Certification Board (TALCB) was statutorily created as an independent subdivision of the Texas Real Estate Commission (TREC) and is a legally separate entity from the primary government. The Governor appoints the members of the board. TREC provides administrative support to TALCB, but has no authority to approve or modify its budget or to set its fees. Although TALCB is not fiscally dependent on TREC, to exclude it would result in presentation of incomplete financial statements. TALCB serves the real estate community in Texas. Financial statements can be obtained by contacting TREC at P.O. Box 12188, Austin, Texas 78711-2188.

Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc. (Foundation) is a legally separate entity created to provide prepaid tuition scholarships to students meeting economic or academic requirements. The Foundation is a direct-support organization of the prepaid tuition program and is authorized by Section 54-633 of the Texas Education Code. The Foundation is governed by a board composed of the Comptroller of Public Accounts, a member appointed by the Governor with the advice and consent of the Senate, and three members appointed jointly by the Comptroller and the member who is appointed by the Governor. Separate financial statements may be obtained by contacting the State Comptroller of Public Accounts, Texas Guaranteed Tuition Plan at 111 E. 17th Street, Austin, Texas 78774.

Texas Guaranteed Student Loan Corporation (Corporation) is a public non-profit corporation that guarantees loans made to eligible students under the federal guaranteed student loan program. The State of Texas is financially accountable for the Corporation through board appointment and imposition of will. All members of the Corporation's board are appointed by the Governor with the advice and

consent of the Senate. The Corporation's liabilities are not debts of the state. The Corporation received a one-time appropriation of $1.5 million to fund initial startup operations. The Corporation is reported for the year ended September 30, 2005. Separate financial statements may be obtained by contacting the Texas Guaranteed Student Loan Corporation at P.O. Box 201725, Austin, Texas 78720-1725.

Texas Boll Weevil Eradication Foundation, Inc. (Foundation) was created by Senate Bill 30, 73rd Legislature, 1993 (now codified at Texas Agriculture Code, Chapter 74, Subchapter D). The Foundation establishes and implements a boll weevil eradication program for Texas. It is a legally separate entity, fiscally dependent on the Texas Department of Agriculture (TDA), and governed by sixteen board members. TDA's commissioner appoints eight of the board members. TDA approves the Foundation's budget, assessment fees, and debt. The Foundation is reported for the year ended December 31, 2004. Separate financial statements may be obtained by contacting the TDA at P.O. Box 12847, Austin, Texas 78711-2847.

Texas Water Resources Finance Authority (Authority) was created by the Texas Legislature as a governmental entity and body politic and corporate for the purpose of increasing the availability of financing for water-related projects. A board of directors, composed of the six members of the Texas Water Development Board (TWDB), governs the Authority. TWDB, through a sales and servicing agreement, wholly manages the Authority's operations. Financial statements may be obtained by contacting the TWDB at P.O. Box 13231, Austin, Texas 78711-3231.

Texas Small Business Industrial Development Corporation (TSBIDC) was chartered in 1983 under the Development Corporation Act of 1979 to promote economic development in the State of Texas. The Office of the Governor is the oversight agency for the TSBIDC and is its reporting entity. The board of directors is appointed by the Governor. The Corporation's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Texas Economic Development Corporation (TED Corp), a non-profit corporation, was created in 1991 under the provisions of the Texas Non-Profit Corporation Act to assist, promote, develop, and advance economic development in the State of Texas. The Office of the Governor is the oversight agency for the TED Corp and is its reporting entity. The board of directors is appointed by the Governor. The entity's services primarily benefit the Texas citizenry. Separate financial statements may be obtained by contacting the Office of the Governor at P.O. Box 12428, Austin, Texas 78711.

Surplus Lines Stamping Office of Texas (Office) is a non-profit corporation created by the Texas Legislature to assist the Texas Department of Insurance (TDI) in the regulation of surplus lines insurance. TDI's Commissioner appoints the board. The Office assesses each surplus lines insurance agent a stamping fee for the administrative funding of the Office. TDI sets the fee amount to be assessed to the agents. The Office is reported for the year ended December 31, 2004. Separate financial statements may be obtained at P.O. Box 160170, Austin, Texas 78716-0170.

Texas Health Reinsurance System reinsures risks covered under the health benefit plans of small employers' insurance carriers. TDI's Commissioner appoints the nine-member board. Financial statements may be obtained at 100 Great Meadow Rd., Suite 704, Wethersfield, Connecticut 06109.

Texas Health Insurance Risk Pool provides access to quality health care at a minimum cost to the public for those unable to obtain traditional health care coverage. The TDI approves all rates and rate schedules before they are used. The board of directors, composed of nine members, is appointed by TDI's Commissioner. Financial statements may be obtained at 1701 Director's Blvd., Suite 120, Austin, Texas 78744.

Texas State Affordable Housing Corporation (TSAHC) was incorporated under the Texas Non-Profit Corporation Act and is legally separate from the state. Its purpose is to serve the housing needs of low-income Texans who are not afforded housing finance options through conventional lending channels, professional educators, and firefighters and police officers who are first-time home buyers.

TSAHC operates under the name Texas Star Mortgage to provide single and multifamily loans to low-income Texans. Although a separate entity from the state, there is a statutory link between the state and TSAHC as it issues bonds. Because of this link, TSAHC is included in the state's CAFR as a discretely presented component unit. Separate financial statements may be obtained by contacting TSAHC at P.O. Box 12637, Austin, Texas 78711-2637.

Related Organizations

Related organizations are legally separate, fiscally independent entities for which the state appoints a voting majority of the board, however, the state is not financially accountable for the entity.

Life, Accident, Health, and Hospital Service Insurance Guaranty Association (Association) was created for the protection of persons against failure in the performance of contractual obligations under life, accident, and health insurance policies and annuity contracts, because of the impairment or insolvency of the member insurer that issued the policies or contracts. TDI's Commissioner appoints a board of directors of the Association consisting of nine members.

Texas Title Insurance Guaranty Association was created for the purpose of providing funds for the protection of holders of "covered claims", as defined in Article 9.48 of the Texas Insurance Code. This applies to all title insurance written by title insurance companies authorized to do business in Texas. The nine-member board of directors is appointed by TDI's Commissioner.

Texas Mutual Insurance Company (Texas Mutual) was created by House Bill 3458. It was previously known as the Texas Workers' Compensation Insurance Fund and reported as a discretely presented component unit. Texas Mutual operates as a domestic mutual insurance company providing workers' compensation insurance in the State of Texas, and also serves as the insurer of last resort. It is legally separate and fiscally independent of the state, but the state appoints a voting majority of the Texas Mutual's board.

Beacon State Fund was created to assist the Women's Commission in promoting issues that affect the women of Texas through the distribution of information, media events and community outreach programs to increase public awareness. The Office of the Governor appoints a voting majority of the board.

Heep Foundation is a not-for-profit corporation established to receive and administer funds for educational purposes, in support of and for the benefit of Texas A&M University, Texas Agricultural Experiment Station, Texas Cooperative Extension, Texas Engineering Experiment Station, and Texas Engineering Extension Service. All gifts received by the corporation are placed into its permanent endowment fund.

Helm Estate consists of investments which provide investment income. Net income is distributed according to the instructions contained in the last will and testament. The A&M System Board serves as Executor of the Estate of Ardella Helm. The three beneficiaries are institutions of higher education, one of which is Texas A&M University, and distributions are to be used for the award of scholarships.

Midwestern State University Charitable Trust is a non-profit organization with the sole purpose of educational and other activities of Midwestern State University. It is governed by a five-member Board of Trustees. This Board appoints individuals to fill vacancies on the Board as they occur.

River Authorities are political subdivisions that are created by Texas statute. The Texas Constitution, Article XVI, Section 59, authorizes the Texas Legislature to create districts that conserve and develop natural resources of the state. The conservation and development of the state's natural resources includes the control, storing, preservation and distribution of its storm and flood waters, the waters of its rivers and streams, for irrigation, power and all other useful purposes, the reclamation and irrigation of its arid, semiarid and other lands needing irrigation, the reclamation of drainage of its overflowed lands, and other lands needing drainage, the conservation and development of its forests, water and hydro-electric power, the navigation of its inland and coastal waters, and the preservation and conservation of all such natural resources of the state (Texas Constitution, Article XVI, Section 59). Although there are seventeen

river/water authorities, the State of Texas has voting majority for the following fourteen:

- Angelina-Neches River Authority
- Brazos River Authority
- Central Colorado River Authority
- Guadalupe Blanco River Authority
- Lavaca Navidad River Authority
- Lower Colorado River Authority
- Lower Neches Valley River Authority
- Nueces River Authority
- Red River Authority
- Sabine River Authority
- Trinity River Authority
- Upper Colorado River Authority
- Upper Guadalupe River Authority
- Upper Neches Municipal Water Authority

Note 20
Deficit Fund Balance/Net Assets

A. Primary Government

Governmental Funds

The State Text Book Fund, a nonmajor special revenue fund, reported a deficit of $110.3 million. This deficit was caused by a timing difference in posting liability accruals and the corresponding asset.

The Texas Mental Health and Mental Retardation Project Funds, a nonmajor capital projects fund, reported a deficit of $572 thousand. This deficit is the result of prior year renovation costs financed by an advance of funds. The payback of the funds will be made from future savings in utility costs.

Proprietary Funds

The Texas Prepaid Higher Education Tuition Board, a nonmajor enterprise fund, reported a deficit of $107.7 million. This deficit was caused by tuition increases at Texas public senior colleges for the last three academic years. A prolonged stock market downturn in 2000 through 2002 also contributed to this deficit. Both the actuary and the investment counsel agree that given the long-term nature of the program, this unfunded liability should be eliminated in the future as investment earnings improve and tuition increases stabilize.

B. Discretely Presented Component Units

The Texas Agricultural Finance Authority (TAFA), a component unit created within the TDA, reported a deficit Unrestricted Net Assets of $1.1 million. This results from an allowance for uncollectible accounts in prior years in the TAFA loan program. To reduce the risk of future allowances, the board has made lending criteria more stringent and will strictly adhere to the established policies and procedures. The 76th Legislature adopted legislation that allows a larger pool of eligible borrowers to the financial assistance program. With the current performing commitments and the approved expansion, the program has the ability to provide the earnings for future uncollectible allowances, and offset the current deficit in the loan program.

The Texas Appraiser Licensing and Certification Board (TALCB), a component of the Texas Real Estate Commission, reported a deficit Unrestricted Net Assets of $15 thousand. This deficit was caused by a timing difference in posting liability accruals and the corresponding asset.

The Texas Boll Weevil Eradication Foundation, Inc., a component unit of the Texas Department of Agriculture (TDA), reported a deficit Unrestricted Net Assets of $64.9 million. This is a result of incurring debt during the early years of the eradication program which resulted in a decrease in unrestricted net assets on the Statement of Revenue, Expenses, and Change in Net Assets and an unrestricted deficit on the Statement of Net Assets. Although this "loss" was incurred during the initial operations of the program, management expects the increase in net assets in later years to offset this loss.

Note 21
Tobacco Settlement

The State of Texas settled a lawsuit against certain tobacco manufacturers in 1998. The settlement included monetary and injunctive relief. The tobacco manufacturers agreed to remit annual payments to the state. Estimates made at the time of the agreement projected that these payments could total $15 billion over the first 25 years of the

agreement. The actual amounts of the annual payments are subject to adjustments for domestic tobacco sales, inflation, and any other court-ordered factors; however, the tobacco companies have no obligation to make settlement payments until cigarettes are shipped (sales). Since annual payments are based on cigarette sales from the preceding calendar year, a revenue accrual of $318,462,667 was made on sales calculated from January 1 to the end of the fiscal year. Tobacco settlement revenues in fiscal year 2004 were $489,423,790 and $811,140,876 in fiscal year 2005. The 2005 revenues reflect a change in calculation method for the portion of tobacco settlement revenue that is applicable to fiscal year 2005. Cumulative actual tobacco settlement revenues as of fiscal year 2005 were $4,102,045,286.

Note 22
Donor-Restricted Endowments

The State of Texas has donor-restricted endowments with net appreciation of $222.5 million on investments which are available for authorization for expenditure by the governing board. Details for the amounts of the net appreciation on investments and how they are reported in net assets can be found in the Donor-Restricted Endowments schedule below. True endowments are those funds that must be maintained inviolate and in perpetuity. Term endowments are similar to true endowments except that, upon the passage of a stated period of time, the principal may be expended. Expendable funds are those funds that may be expended for either a stated purpose (restricted) or for a general purpose (unrestricted) as per the endowment gift terms. Nonexpendable funds may not be expended. The policies of each individual state agency govern the authorizing and spending of net appreciation on investments; there is no state law that governs endowment spending. Most state agencies have a target distribution rate per unit of spendable income between 3 to 6 percent of the average market value of the endowment fund for the preceding 12 quarters.

Donor-Restricted Endowments
(Amounts in Thousands)

Donor-Restricted Endowments	Amount of Net Appreciation	Reported in Net Assets
True Endowments	$ 127,970	Restricted for Nonexpendable
True Endowments	94,441	Restricted for Expendable
Term Endowments	163	Restricted for Nonexpendable
Term Endowments	3	Restricted for Expendable
	$ 222,577	

Note 23
Extraordinary and Special Items

The state did not report extraordinary or special items in the current fiscal year. Extraordinary items, as defined in GASB Statement No. 34, are transactions or other events that are both unusual in nature and infrequent in occurrence. Special items are significant items, subject to management control, that meet one, but not both of the criteria used for identifying extraordinary items.

Note 24
Taxes Receivable

Taxes receivable represent amounts due to the state at August 31, 2005 for revenues earned in the current fiscal year that will be collected in the future. Amounts expected to be collected in the next fiscal year are classified as “current” and amounts expected to be collected beyond the next fiscal year are classified as “non-current”. The receivables have been recorded net of allowances for uncollectible accounts. Revenue is recorded on the governmental fund financial statements using the modified accrual basis of accounting for amounts due to the State of Texas at August 31, 2005 that are considered “available” (e.g. received by the state within approximately 60 days after that date). Revenue earned but not “available” at August 31, 2005 is recorded as deferred revenue. Prepaid taxes are also recorded as deferred revenue.

On the government-wide financial statements a corresponding amount is recorded as revenue using the accrual basis of accounting, which includes revenue earned at fiscal year end regardless of its availability. Deferred revenue includes only the prepaid taxes that have not been earned by fiscal year end. Taxes receivable are the same for both modified and full accrual bases.

Taxes Receivable, as reported in the General fund on the Balance Sheet – Governmental Funds, are detailed by tax type as follows.

Taxes Receivable by Tax Type

August 31, 2005 (Amounts in Thousands)

Tax Type	Net Taxes Receivable
Sales and Use Tax	$1,195,391
Motor Vehicle and Manufactured Housing	103,328
Motor Fuels	85,923
Franchise	246,706
Oil and Natural Gas Production	318,163
Insurance Occupation	95,018
Cigarette and Tobacco	7,628
Other	176,257
Total Net Taxes Receivable	$2,228,414
Liquidity Characteristics:	
Current Taxes Receivable	$1,888,689
Non-Current Taxes Receivable	339,725
Total Net Taxes Receivable	$2,228,414

Required Supplementary Information Other Than MD&A

2005

State of Texas
Budgetary Comparison Schedule
General Fund

For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts Budgetary Basis	Final to Actual Variance
	Original	Final		
REVENUES				
Taxes	$27,270,953	$28,767,959	$29,688,022	$ 920,063
Federal	17,489,688	20,931,657	19,773,471	(1,158,186)
Licenses, Fees, and Permits	2,190,045	2,303,242	2,338,916	35,674
Interest and Other Investment Income	141,414	208,214	165,445	(42,769)
Land Income	8,999	7,498	9,124	1,626
Settlement of Claims	500,637	475,462	546,107	70,645
Sales of Goods and Services	653,982	955,689	783,821	(171,868)
Other	1,571,115	2,032,982	1,745,334	(287,648)
Total Revenues	49,826,833	55,682,703	55,050,240	(632,463)
EXPENDITURES				
General Government	2,751,743	2,028,521	1,721,659	306,862
Education	14,282,766	15,042,411	14,777,191	265,220
Employee Benefits	1,004,691	781	567	214
Health and Human Services	21,535,497	22,994,214	23,151,761	(157,547)
Public Safety and Corrections	2,856,370	3,546,440	3,408,327	138,113
Transportation	925	1,609	794	815
Natural Resources and Recreation	792,731	1,019,371	822,305	197,066
Regulatory Services	219,220	272,789	272,842	(53)
Total Expenditures	43,443,943	44,906,136	44,155,446	750,690
Excess of Revenues Over Expenditures	6,382,890	10,776,567	10,894,794	118,227
OTHER FINANCING SOURCES (USES)				
Transfer In	1,574,611	1,807,194	2,134,587	327,393
Transfer Out	(7,407,500)	(8,115,613)	(9,857,213)	(1,741,600)
Sale of Capital Assets	2,382	18,104	24,520	6,416
Available Beginning Balances	(94,039)	322,356	1,588,748	1,266,392
Total Other Financing Sources (Uses)	(5,924,546)	(5,967,959)	(6,109,358)	(141,399)
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	$ 458,344	$ 4,808,608	$ 4,785,436	$ (23,172)

State of Texas
Budgetary Comparison Schedule
Major Special Revenue Fund – State Highway Fund
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Budgetary Amounts		Actual Amounts Budgetary Basis	Final to Actual Variance
	Original	Final		
REVENUES				
Taxes	$ 32,550	$ 33,080	$ 33,004	$ (76)
Federal	3,021,526	3,830,639	3,218,519	(612,120)
Licenses, Fees, and Permits	871,236	922,492	933,829	11,337
Interest and Other Investment Income	17,685	28,473	33,817	5,344
Land Income	4,704	2,186	3,096	910
Settlement of Claims	6,887	7,071	18,338	11,267
Sales of Goods and Services	169,858	185,939	226,685	40,746
Other	15,530	26,413	23,573	(2,840)
Total Revenues	4,139,976	5,036,293	4,490,861	(545,432)
EXPENDITURES				
General Government	9,595	11,778	11,026	752
Public Safety and Corrections	372,001	510,921	514,742	(3,821)
Transportation	5,234,020	6,304,841	6,743,785	(438,944)
Total Expenditures	5,615,616	6,827,540	7,269,553	(442,013)
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,475,640)	(1,791,247)	(2,778,692)	(987,445)
OTHER FINANCING SOURCES (USES)				
Transfer In	2,152,062	2,178,572	2,533,827	355,255
Transfer Out			(156,092)	(156,092)
Sale of Capital Assets	8,976	10,975	10,582	(393)
Available Beginning Balances	585,624	123,845	760,704	636,859
Total Other Financing Sources (Uses)	2,746,662	2,313,392	3,149,021	835,629
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	$ 1,271,022	$ 522,145	$ 370,329	$ (151,816)

Note to Budgetary Comparison Schedule

The Budgetary Comparison Schedule presents comparisons of the legally adopted budget (more fully described in Note 1) with actual data on a budgetary basis. Since accounting principles applied for purposes of developing data on a budgetary basis differ significantly from those used to present financial statements in conformity with GAAP, a reconciliation of these differences is required and is presented below.

Reconciliation of Budgetary Basis to GAAP Basis

August 31, 2005 (Amounts in Thousands)

	General Fund	State Highway Fund
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses – Actual Budgetary Basis	$4,785,436	$ 370,329
Basis of Accounting Differences:		
Receivables and Deferred Revenues	23,928	198,996
Payables	(285,499)	15,364
Perspective Differences:		
Beginning Cash Balances Reported as Other Financing Sources	(1,588,748)	(760,704)
Federal Program Revenues Not Budgeted	3,491,891	
Federal Program Expenditures Not Budgeted	(3,491,891)	
Other Revenues Not Budgeted	101,070	
Other Expenditures Not Budgeted	(286,766)	(465)
Entity Differences:		
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses for Other Activities	69	
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses – GAAP Basis	$2,749,490	$ (176,480)

The major reconciling items between the Budgetary Comparison Schedule Actual and the GAAP Financial Statements are due to the following items.

Basis of Accounting Differences

Revenues and expenditures are reported on the cash basis of accounting in the Budgetary Comparison Schedule but are reported on the modified accrual basis on the GAAP Financial Statements. Therefore, deferred revenues, receivables and payables are included as reconciling items.

Perspective Differences

Certain revenues and expenditures, including debt service, the Federal Food Stamps Program and the Disproportionate Share portion of the Federal Medical Assistance program are not budgeted by the Legislature. The activity for these programs has been excluded from the Budgetary Comparison Schedule.

The beginning cash balances are included as Other Financing Sources in the Budgetary Comparison Schedule. The beginning fund balances are not included as Financing Sources on the GAAP Financial Statements.

Entity Differences

Budgets are not established for sources from capital leases. These financing sources are not included in the Budgetary Comparison Schedule.

Excess of Actual Budgetary Basis Expenditures over Final Budget

- General Fund – The variance in Health and Human Services is the result of increased expenditures made from excess of federal revenues received over estimates in this particular function. The variance of $53 thousand in Regulatory Services is due to a net increase in accruals which includes prior year amounts when presenting data on a budgetary basis of accounting.
- Major Special Revenue fund – State Highway Fund – The variance of $442 million in Transportation and Public Safety and Corrections is a result of budgeted expenditures being made from beginning cash balance in the fund.
- Other Nonmajor Funds – All funds that have an excess of expenditures over appropriations variance is a result of direct funding from either appropriated transfers-in and/or beginning cash balances.

Modified Approach to Reporting Infrastructure Assets

As permitted by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, the state has adopted the modified approach for reporting its highway system. Under the modified approach, depreciation is not reported and certain preservation and maintenance costs are expensed.

The modified approach requires that the state:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets,
- Perform condition assessments of the eligible infrastructure assets and summarize the results using a measurement scale in order to document that the eligible infrastructure assets are being preserved approximately at (or above) the condition level established and disclosed by the government, and
- Estimate each year the annual amount needed to maintain and preserve the eligible infrastructure assets at the condition level established and disclosed by the government.

Although bridges are an integral part of the highway system, the state has elected to depreciate bridges. Therefore, they are not reported using the modified approach.

Condition Assessments

The Texas Department of Transportation (TxDOT) performs yearly condition assessments through its Texas Maintenance Assessment Program (TxMAP). Under this program, visual inspections are conducted on approximately 10% of the Interstate system and 5% of the Non-Interstate system (US, State, and FM roadways). For each section of highway observed, twenty-one elements separated into three highway components are assessed scores from 0 to 5 (0=NA, 1=Failed, 2=Poor, 3=Fair, 4=Good, 5=Excellent) in order to determine the condition of the highways. Each element within a component is weighted according to importance and each component is weighted according to importance to determine the overall condition of the highways. The overall score is converted to a percentage measurement for reporting (1=20%, 2=40%, 3=60%, 4=80%, 5=100%).

Assessed Conditions

The Texas Highway Commission has adopted a minimum condition level of 80% for the Interstate system and 75% for the Non-Interstate system.

For the current year and three prior years, the results of the condition assessments are as follows.

Year	Interstate Condition (Minimum 80%)	Non-Interstate Condition (Minimum 75%)
2005	82.1%	77.9%
2004	82.3%	79.1%
2003	81.3%	78.5%
2002	82.5%	78.7%
2001	85.0%	78.3%

Estimated and Actual Costs for Maintenance

The table below provides a comparison between TxDOT's estimate of maintenance expenditures required to maintain the highway system at or above the adopted condition levels and the actual expenditures. Since GASB 34 only became effective for fiscal year 2002, no prior year estimates are available. However, the actual maintenance expenditures for 2001 are presented for comparison.

Maintenance Cost
(Amounts in Thousands)

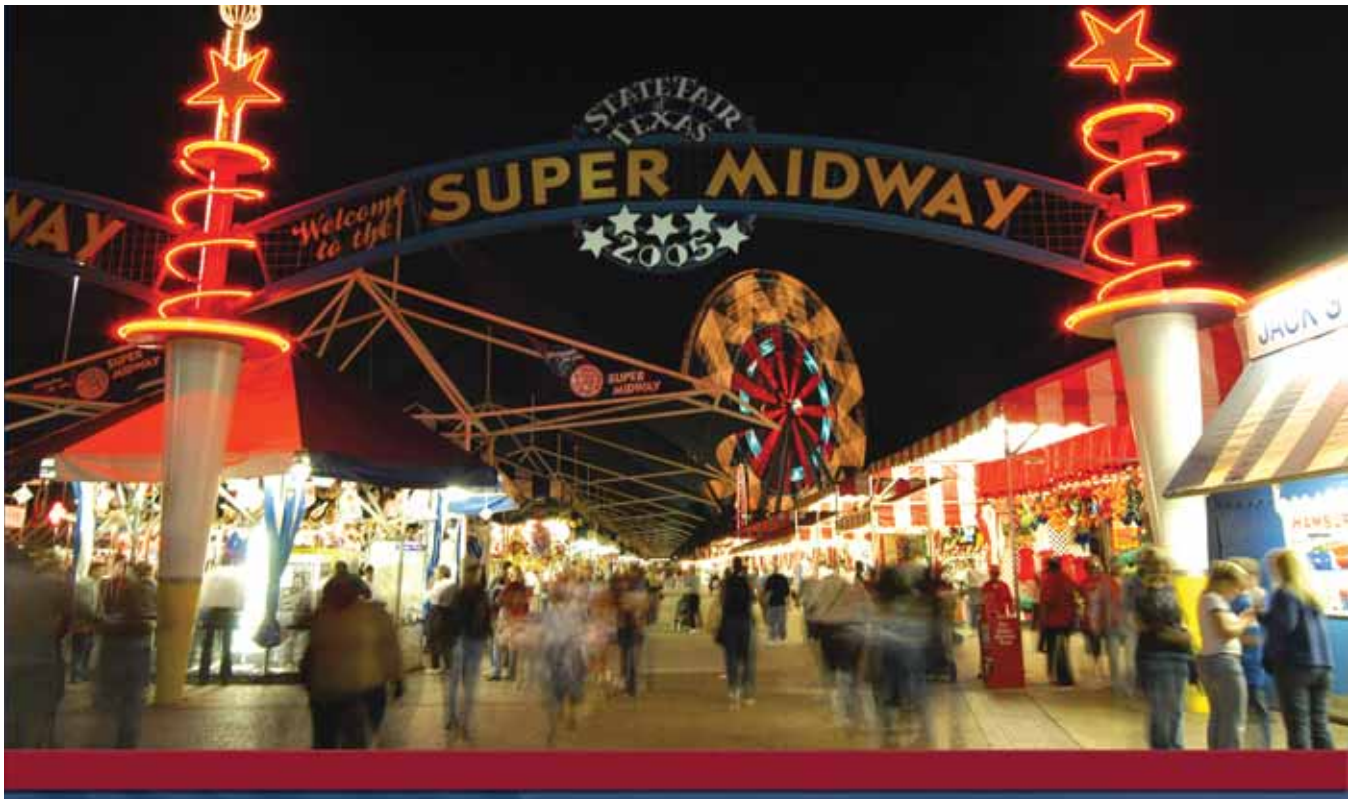
	2005	2004	2003	2002	2001
Interstate Highways					
Estimate	$ 314,000	$ 400,000	$ 400,000	$ 210,000	N/A
Actual	$ 427,107	$ 383,933	$ 330,766	$ 386,032	$ 286,502
Other Highways					
Estimate	$1,590,417	$1,450,000	$1,450,000	$1,444,000	N/A
Actual	$1,604,781	$1,378,863	$1,483,210	$1,489,744	$1,292,071

Factors Affecting Condition Assessments

Although TxDOT has adopted condition levels for the highway system, this process is relatively new and represents a different approach to maintaining the highway system. (As time progresses, TxDOT hopes to achieve a greater correlation between the estimated and actual maintenance

expenditures needed to maintain the highway system at or above the adopted condition levels).

In reviewing the condition assessments, it is also necessary to consider the effects of other factors such as increases in traffic, legislative mandates, and environmental effects (rainfall, drought, freeze, thaw, etc.) which may have a major impact on needed funds and the condition of Texas roads.



Other Supplementary Information

2005

Combining Financial Statements and Schedules

2005

Governmental Funds

2005

State of Texas
Combining Balance Sheet – Nonmajor Governmental Funds
August 31, 2005 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
ASSETS					
Cash and Cash Equivalents	$1,196,509	$ 5,678	$ 168,556	$ 684	$1,371,427
Short Term Investments	34,393		6,382	71,807	112,582
Securities Lending Collateral				44,216	44,216
Receivables:					
Accounts	2,616		1,289		3,905
Federal	2,078	319			2,397
Investment Trades				1,668	1,668
Interest and Dividends	17,497	1,305	9	2,349	21,160
Due From Other Funds	84,031	45	6,298		90,374
Interfund Receivable		371			371
Inventories	503		85		588
Investments	7,255	46,747		968,478	1,022,480
Loans and Contracts	216,273				216,273
Other Assets	8,035				8,035
Restricted:					
Cash and Cash Equivalents	161,909	158,813			320,722
Short Term Investments		1,366			1,366
Receivables	1				1
Loans and Contracts	632,143				632,143
Other Assets	125,555				125,555
Total Assets	$2,488,798	$ 214,644	$ 182,619	$1,089,202	$3,975,263
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 147,593	$ 1,479	$ 18,475	$ 281	$ 167,828
Investment Trades				2,736	2,736
Payroll	6,853		158		7,011
Federal	76				76
Interest	10,751				10,751
Due To Other Funds	32,940		212		33,152
Interfund Payable	371		2,777		3,148
Deferred Revenues	614				614
Obligations/Securities Lending				44,216	44,216
Other Current Liabilities	2,386		544		2,930
Total Liabilities	201,584	1,479	22,166	47,233	272,462
Fund Balances/(Deficits):					
Reserved	873,697	213,165	160,734	496,184	1,743,780
Unreserved	1,413,517		(281)	545,785	1,959,021
Total Fund Balances	2,287,214	213,165	160,453	1,041,969	3,702,801
Total Liabilities and Fund Balances	$2,488,798	$ 214,644	$ 182,619	$1,089,202	$3,975,263

State of Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Funds	Total Nonmajor Funds
REVENUES					
Federal	$ 39,026	$ 1,868	$ 2,124	$	$ 43,018
Licenses, Fees, and Permits	316,318				316,318
Interest and Other Investment Income	113,145	14,637	2,560	149,920	280,262
Land Income	172,385			17	172,402
Settlement of Claims	73				73
Sales of Goods and Services	5,326		3,918		9,244
Other	11,112	371	120	3	11,606
Total Revenues	657,385	16,876	8,722	149,940	832,923
EXPENDITURES					
Current:					
General Government	112,631	637	10,784	3,841	127,893
Education	1,705,496	58	217		1,705,771
Employee Benefits	10,988				10,988
Teacher Retirement Benefits	24				24
Health and Human Services	106,449		30,381		136,830
Public Safety and Corrections	67,304		7,582		74,886
Transportation	13,519		14,439		27,958
Natural Resources and Recreation	253,021		2,382	34	255,437
Regulatory Services	74,804				74,804
Capital Outlay	5,400		89,384		94,784
Debt Service:					
Principal	26	301,667			301,693
Interest		176,545			176,545
Other Payments for Refunding		1,595			1,595
Other Financing Fees		511			511
Total Expenditures	2,349,662	481,013	155,169	3,875	2,989,719
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,692,277)	(464,137)	(146,447)	146,065	(2,156,796)
OTHER FINANCING SOURCES (USES)					
Transfer In	2,339,031	476,073	3,618	350	2,819,072
Transfer Out	(1,307,282)	(21,086)	(3,713)	(22,276)	(1,354,357)
Bonds and Notes Issued	1,045,000		197,000		1,242,000
Bond Proceeds for Advance Refunding		207,980			207,980
Payment to Escrow for Advance Refunding		(207,980)			(207,980)
Sale of Capital Assets		2,010			2,010
Increase in Obligations Under Capital Leases	1				1
Total Other Financing Sources (Uses)	2,076,750	456,997	196,905	(21,926)	2,708,726
Net Change in Fund Balances	384,473	(7,140)	50,458	124,139	551,930
Fund Balances, September 1, 2004	1,863,527	220,305	110,047	917,830	3,111,709
Restatements	39,214		(52)		39,162
Fund Balances, September 1, 2004, as Restated	1,902,741	220,305	109,995	917,830	3,150,871
Fund Balances, August 31, 2005	$2,287,214	$ 213,165	$ 160,453	$1,041,969	$3,702,801

Nonmajor Special Revenue Funds

The **Economic Stabilization Fund** receives one-half of any unencumbered positive balance in the General Revenue Fund on the last day of the preceding biennium and an amount equal to 75 percent of excess of oil and gas production taxes received greater than the excess of oil and gas production taxes received in fiscal year 1987 and any other money appropriated to the fund by the Legislature. The fund may be used to eliminate temporary cash deficiency in the General Revenue Fund, or may be appropriated for any purpose by two-thirds vote of the Legislature.

The **Student Loan Funds** receive proceeds from the issuance of bonds that are used to make loans to qualifying students who have been admitted to attend any institution of higher education within the State of Texas.

The **Water Development Funds** receive proceeds from the sale of Texas Water Development Bonds for the purpose of aiding and making funds available to various political subdivisions for projects and other authorized purposes. The funds also receive gifts or grants for the purpose of assisting economically distressed areas. Monies in the funds are invested.

The **System Benefit Fund** receives funds from a nonbypassable fee in an amount not to exceed 65 cents per megawatt hour and interest earned. The funds are used to provide funding for programs to assist low-income electric customers, customer education, and school funding loss mechanism.

The **State Text Book Fund** receives money from the Available School Fund for the purpose of providing free textbooks to children attending public schools.

The **Texas Mobility Fund** accounts for the construction, reconstruction, acquisition, and expansion of state highways, including costs of design and acquisition of right of way. It provides payment of a portion of the costs of construction, publicly owned toll roads, and other public transportation projects. It is financed primarily from the sale of obligations of the state, appropriations made by the legislature of revenue, including taxes, other money not otherwise dedicated by the construction, and money received from a regional mobility authority that determines it has surplus revenue from turnpike projects and chooses to send the excess to this fund.

State of Texas
Combining Balance Sheet – Nonmajor Special Revenue Funds
August 31, 2005 (Amounts in Thousands)

	Economic Stabilization Fund	Student Loan Funds	Water Development Funds*	System Benefit Fund	State Text Book Fund	Texas Mobility Fund**	Other Nonmajor Special Revenue Funds***	Totals
ASSETS								
Cash and Cash Equivalents	$ 6,949	$	$ 93,499	$118,782	$ 8,318	$832,750	$136,211	$1,196,509
Short Term Investments			21,574				12,819	34,393
Receivables:								
Accounts			263		22		2,331	2,616
Federal		118	34				1,926	2,078
Interest and Dividends	89	15,914	793		23		678	17,497
Due From Other Funds		144					83,887	84,031
Inventories							503	503
Investments							7,255	7,255
Loans and Contracts			176,272				40,001	216,273
Other Assets							8,035	8,035
Restricted:								
Cash and Cash Equivalents		160,406					1,503	161,909
Receivables		1						1
Loans and Contracts		632,143						632,143
Other Assets		125,555						125,555
Total Assets	$ 7,038	$934,281	$292,435	$118,782	$ 8,363	$832,750	$295,149	$2,488,798
LIABILITIES AND FUND BALANCES								
Liabilities:								
Payables:								
Accounts	$	$ 128	$ 2,460	$ 7,969	$118,315	$ 1,640	$ 17,081	$ 147,593
Payroll					358		6,495	6,853
Federal		76						76
Interest						10,751		10,751
Due To Other Funds	3,675	45	503			12,092	16,625	32,940
Interfund Payable							371	371
Deferred Revenues					21		593	614
Other Current Liabilities							2,386	2,386
Total Liabilities	3,675	249	2,963	7,969	118,694	24,483	43,551	201,584
Fund Balances/(Deficits):								
Reserved for:								
Encumbrances			20,099		4		4,666	24,769
Inventories							503	503
Imprest Accounts							9	9
Loans and Contracts		632,143	176,272				40,001	848,416
Unreserved:								
Designated for:								
General Government	3,363			83			42,920	46,366
Regulatory Services				110,730			11,799	122,529
Health and Human Services							12,788	12,788
Natural Resources and Recreation			93,101				21,842	114,943
Education		301,889			(110,335)		107,092	298,646
Transportation						808,267	349	808,616
Public Safety and Corrections							9,350	9,350
Employee Benefits							71	71
Teacher Retirement Benefits							208	208
Total Fund Balances	3,363	934,032	289,472	110,813	(110,331)	808,267	251,598	2,287,214
Total Liabilities and Fund Balances	$ 7,038	$934,281	$292,435	$118,782	$ 8,363	$832,750	$295,149	$2,488,798

* Several Water Development Funds previously reported within the Other Nonmajor Special Revenue Funds column have been reallocated to the Water Development Funds column.

** The Texas Mobility Fund was previously reported within the Other Nonmajor Enterprise Funds column.

*** Blended Component Units and Employees Retirement System of Texas' Special Revenue Funds are reported within the Other Nonmajor Special Revenue Funds column. These Funds do not meet the materiality threshold for separate column presentation.

State of Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Special Revenue Funds
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Economic Stabilization Fund	Student Loan Funds	Water Development Funds*	System Benefit Fund	State Text Book Fund	Texas Mobility Fund**	Other Nonmajor Special Revenue Funds***	Totals
REVENUES								
Federal	$	$ 261	$ 32,093	$	$	$	$ 6,672	$ 39,026
Licenses, Fees, and Permits			57	136,392		77,782	102,087	316,318
Interest and Other Investment Income	16,988	31,102	8,066	1,878	551	45,208	9,352	113,145
Land Income							172,385	172,385
Settlement of Claims							73	73
Sales of Goods and Services			359		1,938		3,029	5,326
Other		1,051	1,877				8,184	11,112
Total Revenues	16,988	32,414	42,452	138,270	2,489	122,990	301,782	657,385
EXPENDITURES								
Current:								
General Government	3,036			215			109,380	112,631
Education	30,000	110			118,088		1,557,298	1,705,496
Employee Benefits							10,988	10,988
Teacher Retirement Benefits							24	24
Health and Human Services	92,400						14,049	106,449
Public Safety and Corrections							67,304	67,304
Transportation						11,789	1,730	13,519
Natural Resources and Recreation			60,084				192,937	253,021
Regulatory Services				65,341			9,463	74,804
Capital Outlay			8		38		5,354	5,400
Debt Service:								
Principal					26			26
Total Expenditures	125,436	110	60,092	65,556	118,152	11,789	1,968,527	2,349,662
Excess (Deficiency) of Revenues Over (Under) Expenditures	(108,448)	32,304	(17,640)	72,714	(115,663)	111,201	(1,666,745)	(1,692,277)
OTHER FINANCING SOURCES (USES)								
Transfer In	594,494	9,502	4,367		5,000		1,725,668	2,339,031
Transfer Out	(848,700)	(95,397)	(7,741)			(342,182)	(13,262)	(1,307,282)
Bonds and Notes Issued						1,000,000	45,000	1,045,000
Increase in Obligations Under Capital Leases					1			1
Total Other Financing Sources (Uses)	(254,206)	(85,895)	(3,374)	0	5,001	657,818	1,757,406	2,076,750
Net Change in Fund Balances	(362,654)	(53,591)	(21,014)	72,714	(110,662)	769,019	90,661	384,473
Fund Balances, September 1, 2004	366,017	987,623	310,486	38,099	331		160,971	1,863,527
Restatements						39,248	(34)	39,214
Fund Balances, September 1, 2004, as Restated	366,017	987,623	310,486	38,099	331	39,248	160,937	1,902,741
Fund Balances, August 31, 2005	$ 3,363	$934,032	$289,472	$110,813	$(110,331)	$ 808,267	$ 251,598	$2,287,214

* Several Water Development Funds previously reported within the Other Nonmajor Special Revenue Funds column have been reallocated to the Water Development Funds column. Since this is only a change in column composition and not a change in total beginning Fund Balances, no restatement was necessary.

** The Texas Mobility Fund was previously reported within the Other Nonmajor Enterprise Funds column.

*** Blended Component Units and Employees Retirement System of Texas' Special Revenue Funds are reported within the Other Nonmajor Special Revenue Funds column. These funds do not meet the materiality threshold for separate column presentation.

State of Texas
Budgetary Comparison Schedule
Nonmajor Special Revenue Funds
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Economic Stabilization Fund				Student Loan Funds			
	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
	Original	Final			Original	Final		
REVENUES								
Federal	$	$	$	$	$	$	$ 383	$ 383
Licenses, Fees, and Permits								
Interest and Other Investment Income	7,219	15,613	17,348	1,735	1,005	1,000	34,810	33,810
Land Income								
Settlement of Claims								
Sales of Goods and Services								
Other					41		1,051	1,051
Total Revenues	7,219	15,613	17,348	1,735	1,046	1,000	36,244	35,244
EXPENDITURES								
General Government			3,037	(3,037)				
Education	30,000	30,000	30,000			110,000	95,960	14,040
Employee Benefits								
Health and Human Services	92,400	92,400	92,400					
Public Safety and Corrections								
Transportation								
Natural Resources and Recreation								
Regulatory Services								
Total Expenditures	122,400	122,400	125,437	(3,037)	0	110,000	95,960	14,040
Excess (Deficiency) of Revenues Over (Under) Expenditures	(115,181)	(106,787)	(108,089)	(1,302)	1,046	(109,000)	(59,716)	49,284
OTHER FINANCING SOURCES (USES)								
Transfer In	242,981	852,495	594,494	(258,001)			9,502	9,502
Transfer Out		(971,000)	(848,700)	122,300			(95,397)	(95,397)
Bond Proceeds								
Sale of Capital Assets								
Available Beginning Balances	(94,459)	108,994	365,571	256,577	200,495	200,495	198,936	(1,559)
Total Other Financing Sources (Uses)	148,522	(9,511)	111,365	120,876	200,495	200,495	113,041	(87,454)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ 33,341	$ (116,298)	$ 3,276	$ 119,574	$ 201,541	$ 91,495	$ 53,325	$ (38,170)

Water Development Funds				System Benefit Fund			
Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
Original	Final			Original	Final		
$ 20,509	$ 55,722	$ 32,060	$ (23,662)	$	$	$	$
192		57	57	213,435	182,623	136,392	(46,231)
1,860	4,132	7,498	3,366		179	1,878	1,699
964	174	154	(20)				
100	13,325	1,873	(11,452)		1,878		(1,878)
23,625	73,353	41,642	(31,711)	213,435	184,680	138,270	(46,410)
				288	329	216	113
5,081	21,587	54,688	(33,101)				
				73,729	124,369	65,340	59,029
5,081	21,587	54,688	(33,101)	74,017	124,698	65,556	59,142
18,544	51,766	(13,046)	(64,812)	139,418	59,982	72,714	12,732
	9,536	4,367	(5,169)				
105,243	132,492	72,071	(60,421)	(101,192)	64,938	43,360	(21,578)
105,243	142,028	76,438	(65,590)	(101,192)	64,938	43,360	(21,578)
$ 123,787	$ 193,794	$ 63,392	$ (130,402)	$ 38,226	$ 124,920	$ 116,074	$ (8,846)

Concluded on the following two pages

State of Texas
Budgetary Comparison Schedule
Nonmajor Special Revenue Funds (concluded)
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	State Text Book Fund				Texas Mobility Fund			
	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance	Budgetary Amounts		Actual Amounts Budgetary Basis	Final To Actual Variance
	Original	Final			Original	Final		
REVENUES								
Federal	$	$	$ (9)	$ (9)	$	$	$	$
Licenses, Fees, and Permits	300	200		(200)	98,800	58,140	77,782	19,642
Interest and Other Investment Income	359	344	562	218		1,243	45,208	43,965
Land Income								
Settlement of Claims								
Sales of Goods and Services	2,700	2,400	1,925	(475)				
Other								
Total Revenues	3,359	2,944	2,478	(466)	98,800	59,383	122,990	63,607
EXPENDITURES								
General Government								
Education	2,116	8,447	35,084	(26,637)				
Employee Benefits								
Health and Human Services								
Public Safety and Corrections								
Transportation					1,041,321	1,041,658		1,041,658
Natural Resources and Recreation								
Regulatory Services								
Total Expenditures	2,116	8,447	35,084	(26,637)	1,041,321	1,041,658	0	1,041,658
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,243	(5,503)	(32,606)	(27,103)	(942,521)	(982,275)	122,990	1,105,265
OTHER FINANCING SOURCES (USES)								
Transfer In		47,732	5,000	(42,732)				
Transfer Out							(342,182)	(342,182)
Bond Proceeds*					1,000,000	1,000,000	1,000,000	
Sale of Capital Assets								
Available Beginning Balances	436,513	4,958	35,676	30,718	39,248	39,248	39,248	
Total Other Financing Sources (Uses)	436,513	52,690	40,676	(12,014)	1,039,248	1,039,248	697,066	(342,182)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	$ 437,756	$ 47,187	$ 8,070	$ (39,117)	$ 96,727	$ 56,973	$ 820,056	$ 763,083

* The Texas Mobility Fund received $1 Billion in Bond Proceeds which is typically not considered a budgeted line item, however, this amount is authorized with HB 3588, a contingent appropriaiton of HB1, 78th Leg, Art IX, Sec 11.58.

Other Nonmajor Special Revenue Funds			
Budgetary Amounts		Actual Amounts Budgetary	Final To Actual
Original	Final	Basis	Variance
$ 10	$ 14,503	$ 4,430	$ (10,073)
11,842	23,280	49,851	26,571
892,666	7,928	6,467	(1,461)
2,227		134	134
	20		(20)
1,009	36,127	2,606	(33,521)
10	4,583	243	(4,340)
907,764	86,441	63,731	(22,710)
344,493	96,092	60,446	35,646
1,461,284	1,461,870	1,557,331	(95,461)
329,031	218	10,931	(10,713)
25,853	29,539	15,192	14,347
9,383	9,428	3,280	6,148
14,524	17,414	9,344	8,070
	5,338	2,003	3,335
2,184,568	1,619,899	1,658,527	(38,628)
(1,276,804)	(1,533,458)	(1,594,796)	(61,338)
727,087	738,495	1,717,184	978,689
	(47,732)	(1,743)	45,989
(2,047)	171,846	150,243	(21,603)
725,040	862,609	1,865,684	1,003,075
$ (551,764)	$ (670,849)	$ 270,888	$ 941,737

Nonmajor Debt Service Funds

The **Texas College Student Loan Bonds Interest and Sinking Fund** receives deposits from the Texas Opportunity Plan Fund for payment of current interest and principal and establishment of a reserve.

The **Texas Public Finance Authority Revenue Bond Funds** receive proceeds and accrued interest from the sale of revenue bonds and provide the debt service requirements for those bonds.

The **Student Loan Revenue Bond Fund** receives proceeds from the sale of revenue bonds and gifts or grants made to the Texas Higher Education Coordinating Board. Loans may be made from the fund to students qualifying for a loan under Subchapter C, Chapter 52.

The **Texas Military Facilities Commission Refund and Improvement Bond Fund** provides for the payment of principal and interest on the Commission's outstanding revenue bonds. The fund is composed of an Interest and Sinking Fund and a Reserve Fund.

The **Texas Public Finance Authority G. O. Bond Funds** receive proceeds and accrued interest from the sale of general obligation bonds and provide the debt service requirements for those bonds.

The **Texas Public Finance Authority Commercial Paper Funds** receive deposits of any accrued interest on sale of notes and pledged revenues necessary to make debt service payments.

The **Texas Water Development Board Bond Funds** receive proceeds to pay debt service on the bonds issued for the purpose of providing financial assistance for the construction of water and wastewater related projects, water supply, and sewer services.

The **Texas Park Development Bond Interest and Sinking Fund** receives net receipts from entrance or gate fees and investment receipts. It is used exclusively for the purpose of paying principal of, and interest on, the bonds as they mature and also exchange and collection charges in connection therewith.

State of Texas
Combining Balance Sheet – Nonmajor Debt Service Funds
August 31, 2005 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Public Finance Authority Revenue Bond Funds	Student Loan Revenue Bond Fund	Texas Military Facilities Commission Refund and Improvement Bond Fund	Texas Public Finance Authority G.O. Bond Funds
ASSETS					
Cash and Cash Equivalents	$	$ 3,434	$	$ 1	$ 176
Receivables:					
Federal	311		8		
Interest and Dividends	1,305				
Due From Other Funds			45		
Interfund Receivable					
Investments		46,747			
Restricted:					
Cash and Cash Equivalents	158,813				
Short Term Investments			1,366		
Total Assets	$ 160,429	$ 50,181	$ 1,419	$ 1	$ 176
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 1,108	$	$	$	$
Total Liabilities	1,108	0	0	0	0
Fund Balances:					
Reserved for Debt Service	159,321	50,181	1,419	1	176
Total Fund Balances	159,321	50,181	1,419	1	176
Total Liabilities and Fund Balances	$ 160,429	$ 50,181	$ 1,419	$ 1	$ 176

* This fund has activity on the Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Debt Service Funds.

Texas Public Finance Authority Commercial Paper Funds	Texas Water Development Board Bond Funds	Texas Park Development Bond Interest and Sinking Fund*	Other Nonmajor Debt Service Funds	Totals
$ 2,048	$ 19	$	$	$ 5,678
				319
				1,305
				45
			371	371
				46,747
				158,813
				1,366
$ 2,048	$ 19	$ 0	$ 371	$ 214,644
$	$	$	$ 371	$ 1,479
0	0	0	371	1,479
2,048	19			213,165
2,048	19	0	0	213,165
$ 2,048	$ 19	$ 0	$ 371	$ 214,644

State of Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Debt Service Funds
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Texas College Student Loan Bonds Interest and Sinking Fund	Texas Public Finance Authority Revenue Bond Funds	Student Loan Revenue Bond Fund	Texas Military Facilities Commission Refund and Improvement Bond Fund	Texas Public Finance Authority G.O. Bond Funds
REVENUES					
Federal	$ 1,813	$	$ 55	$	$
Interest and Other Investment Income	9,452	5,064	25		32
Other					
Total Revenues	11,265	5,064	80	0	32
EXPENDITURES					
Current:					
General Government					637
Education	55		3		
Debt Service:					
Principal	40,480	81,547	1,155	1,385	148,965
Interest	24,625	26,704	99	1,051	103,742
Other Payments for Refunding			1,595		
Other Financing Fees	511				
Total Expenditures	65,671	108,251	2,852	2,436	253,344
(Deficiency) of Revenues (Under) Expenditures	(54,406)	(103,187)	(2,772)	(2,436)	(253,312)
OTHER FINANCING SOURCES (USES)					
Transfer In	93,204	80,720	2,194	2,355	252,590
Transfer Out	(21,082)	(2)	(2)		
Bond Proceeds for Advance Refunding		193,730			
Payment to Escrow for Advance Refunding		(193,730)			
Sale of Capital Assets		2,010			
Total Other Financing Sources (Uses)	72,122	82,728	2,192	2,355	252,590
Net Change in Fund Balances	17,716	(20,459)	(580)	(81)	(722)
Fund Balances, September 1, 2004	141,605	70,640	1,999	82	898
Fund Balances, August 31, 2005	$ 159,321	$ 50,181	$ 1,419	$ 1	$ 176

Texas Public Finance Authority Commercial Paper Funds	Texas Water Development Board Bond Funds	Texas Park Development Bond Interest and Sinking Fund	Other Nonmajor Debt Service Funds	Totals
$	$	$	$	$ 1,868
39	22	3		14,637
			371	371
39	22	3	371	16,876
				637
				58
15,100	8,795	4,240		301,667
1,319	17,197	1,437	371	176,545
				1,595
				511
16,419	25,992	5,677	371	481,013
(16,380)	(25,970)	(5,674)	0	(464,137)
16,285	25,987	2,738		476,073
				(21,086)
		14,250		207,980
		(14,250)		(207,980)
				2,010
16,285	25,987	2,738	0	456,997
(95)	17	(2,936)	0	(7,140)
2,143	2	2,936		220,305
$ 2,048	$ 19	$ 0	$ 0	$ 213,165

Nonmajor Capital Projects Funds

The **Texas Public Finance Authority Administration Project Funds** utilize long-term financing for various state construction, repair, or renovation projects. Funds are also used to refinance purchases of equipment by various state agencies.

The **Texas Parks and Wildlife Department Project Funds** are used for the acquisition and development of state park sites. Revenues from park entrance fees are used for the repayments of long-term debt incurred.

The **Texas Building and Procurement Commission Project Funds** are used to administer the state's major and minor building construction programs.

The **Texas Department of Criminal Justice Prison Project Funds** are used for construction of regional centers and for repairs and minor construction of correctional facilities.

The **Texas Youth Commission Project Funds** are used to pay for minor construction and repairs of the Texas Youth Commission.

The **Texas Mental Health and Mental Retardation Project Funds** are used to pay for the cost of construction, repair, and remodeling for certain mental health facilities.

The **Texas Military Facilities Commission Project Fund** is used to finance renovation and construction of new armories.

The **Texas Department of Transportation Project Funds** are used to provide financial assistance to counties for roadway projects serving border colonias.

The **Adjutant General's Department Project Funds** are used for the acquisition, repair, renovation, or construction of major capital facilities.

State of Texas
Combining Balance Sheet – Nonmajor Capital Projects Funds
August 31, 2005 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Building and Procurement Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds
ASSETS					
Cash and Cash Equivalents	$ 7,118	$ 20,829	$ 38,209	$ 22,218	$ 2,512
Short Term Investments					
Receivables:					
Accounts			947		
Interest and Dividends		9			
Due From Other Funds		4	3,131		535
Inventories	1				
Total Assets	$ 7,119	$ 20,842	$ 42,287	$ 22,218	$ 3,047
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 12	$ 1,324	$ 552	$ 1,286	$ 9
Payroll	59				
Due To Other Funds		182			
Interfund Payable	13		2	284	
Other Current Liabilities				544	
Total Liabilities	84	1,506	554	2,114	9
Fund Balances/(Deficits):					
Reserved for:					
Encumbrances	2	10,610	5,767	7,558	1,744
Inventories	1				
Capital Projects	7,032	5,509	35,516	12,546	1,254
Unreserved:					
Designated for:					
General Government			2		
Public Safety and Corrections					
Undesignated		3,217	448		40
Total Fund Balances	7,035	19,336	41,733	20,104	3,038
Total Liabilities and Fund Balances	$ 7,119	$ 20,842	$ 42,287	$ 22,218	$ 3,047

* Several Project Funds (Texas Department of Public Safety Project Funds, the Texas School for the Deaf Project Funds, the Texas School for the Blind and Visually Impaired Project Funds, the Texas Department of Health Project Funds, and the Texas Historical Commission Project Funds) have been reallocated to the Other Nonmajor Capital Projects Funds column.

Texas Mental Health and Mental Retardation Project Funds	Texas Military Facilities Commission Project Fund	Texas Department of Transportation Project Funds	Adjutant General's Department Project Funds	Other Nonmajor Capital Projects Funds*	Totals
$ 11,352	$ 2,804	$ 24,240	$ 1,423	$ 37,851	$168,556
	6,382				6,382
	342				1,289
					9
2,628					6,298
	84				85
$ 13,980	$ 9,612	$ 24,240	$ 1,423	$ 37,851	$182,619
$ 11,974	$ 596	$ 2,242	$	$ 480	$ 18,475
99					158
1	29				212
2,478					2,777
					544
14,552	625	2,242	0	480	22,166
4,476	6,944		519	37,070	74,690
	84				85
899		21,998	904	301	85,959
					2
	1,959				1,959
(5,947)					(2,242)
(572)	8,987	21,998	1,423	37,371	160,453
$ 13,980	$ 9,612	$ 24,240	$ 1,423	$ 37,851	$182,619

State of Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Capital Projects Funds
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Texas Public Finance Authority Administration Project Funds	Texas Parks and Wildlife Department Project Funds	Texas Building and Procurement Commission Project Funds	Texas Department of Criminal Justice Prison Project Funds	Texas Youth Commission Project Funds
REVENUES					
Federal	$	$	$	$	$ 94
Interest and Other Investment Income	150	714	97	562	128
Sales of Goods and Services			2,399		
Other			119		
Total Revenues	150	714	2,615	562	222
EXPENDITURES					
Current:					
General Government	2,551		197		
Education					
Health and Human Services					
Public Safety and Corrections				6,849	4
Transportation					
Natural Resources and Recreation		2,382			
Capital Outlay	31,011	13,795	7,818	20,822	6,719
Total Expenditures	33,562	16,177	8,015	27,671	6,723
(Deficiency) of Revenues					
(Under) Expenditures	(33,412)	(15,463)	(5,400)	(27,109)	(6,501)
OTHER FINANCING SOURCES (USES)					
Transfer In	477		1,201		562
Transfer Out	(1,662)	(208)	(413)		(4)
Bonds and Notes Issued	37,000	107	37,391	34,500	
Total Other Financing Sources (Uses)	35,815	(101)	38,179	34,500	558
Net Change in Fund Balances	2,403	(15,564)	32,779	7,391	(5,943)
Fund Balances, September 1, 2004	4,632	34,900	8,954	12,713	8,981
Restatements					
Fund Balances, September 1, 2004, as Restated	4,632	34,900	8,954	12,713	8,981
Fund Balances, August 31, 2005	$ 7,035	$ 19,336	$ 41,733	$ 20,104	$ 3,038

* Several Project Funds (Texas Department of Public Safety Project Funds, the Texas School for the Deaf Project Funds, the Texas School for the Blind and Visually Impaired Project Funds, the Texas Department of Health Project Funds, and the Texas Historical Commission Project Funds) have been reallocated to the Other Nonmajor Capital Projects Funds column. Since this is only a change in column composition and not a change in total beginning Fund Balances, no restatement was necessary.

Texas Mental Health and Mental Retardation Project Funds	Texas Military Facilities Commission Project Fund	Texas Department of Transportation Project Funds	Adjutant General's Department Project Funds	Other Nonmajor Capital Projects Funds*	Totals
$	$ 2,030	$	$	$	$ 2,124
245	224	275	41	124	2,560
	1,519				3,918
	1				120
245	3,774	275	41	124	8,722
				8,036	10,784
				217	217
30,380				1	30,381
	237		208	284	7,582
		14,439			14,439
					2,382
	8,517		118	584	89,384
30,380	8,754	14,439	326	9,122	155,169
(30,135)	(4,980)	(14,164)	(285)	(8,998)	(146,447)
1,377				1	3,618
(33)	(1)	(48)		(1,344)	(3,713)
24,000		20,000		44,002	197,000
25,344	(1)	19,952	0	42,659	196,905
(4,791)	(4,981)	5,788	(285)	33,661	50,458
4,271	13,968	16,210	1,708	3,710	110,047
(52)					(52)
4,219	13,968	16,210	1,708	3,710	109,995
$ (572)	$ 8,987	$ 21,998	$ 1,423	$ 37,371	$ 160,453

Nonmajor Permanent Funds

The **Permanent Health Fund for Higher Education** is a permanent fund established by the legislature from a portion of the money received in the settlement of The State of Texas v. The American Tobacco Co., et.al. The corpus of the account has been designated by the legislature to be preserved. Distributions of earnings on the account are to be transferred to other accounts and used for health care costs, tobacco education, and enforcement.

The **Permanent Higher Education Fund** is established by legislation to dedicate portions of the state's revenues. The principal shall never be expended. At the beginning of the fiscal year after the fund reaches $2 billion, and each year thereafter, 10 percent of the interest, dividends, and other income accruing from investments during the previous fiscal year shall be deposited and become part of the principal of the fund. Out of the remainder of the annual income, there shall be appropriated an annual sum sufficient to pay the principal and interest due on the bonds and notes issued and the balance shall be allocated for appropriations made in Article VII, sec. 17(a) of the constitution.

The **Texas Commission on the Arts Trust Fund** consists of the Texas Cultural Endowment Fund account held outside the treasury used for initial seed money for the endowment and deposits toward the endowment. This fund is to provide a stable funding source for the enhancement of art education, encourage economic development, and advance the well being of communities.

State of Texas
Combining Balance Sheet – Nonmajor Permanent Funds
August 31, 2005 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	Permanent Higher Education Fund	Texas Commission on the Arts Trust Fund	Other Nonmajor Permanent Funds	Totals
ASSETS					
Cash and Cash Equivalents	$	$	$ 266	$ 418	$ 684
Short Term Investments	37,170	34,637			71,807
Securities Lending Collateral	22,887	21,329			44,216
Receivables:					
Investment Trades	863	805			1,668
Interest and Dividends	1,216	1,132		1	2,349
Investments	491,990	460,954	13,005	2,529	968,478
Total Assets	$ 554,126	$ 518,857	$ 13,271	$ 2,948	$1,089,202
LIABILITIES AND FUND BALANCES					
Liabilities:					
Payables:					
Accounts	$ 145	$ 136	$	$	$ 281
Investment Trades	1,416	1,320			2,736
Obligations/Securities Lending	22,887	21,329			44,216
Total Liabilities	24,448	22,785	0	0	47,233
Fund Balances:					
Reserved for:					
Encumbrances				112	112
Education		496,072			496,072
Unreserved:					
Designated for:					
Permanent Health Fund	529,678			2,500	532,178
Undesignated			13,271	336	13,607
Total Fund Balances	529,678	496,072	13,271	2,948	1,041,969
Total Liabilities and Fund Balances	$ 554,126	$ 518,857	$ 13,271	$ 2,948	$1,089,202

State of Texas
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Permanent Funds
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Permanent Health Fund for Higher Education	Permanent Higher Education Fund	Texas Commission on the Arts Trust Fund	Other Nonmajor Permanent Funds	Totals
REVENUES					
Interest and Other Investment Income	$ 76,092	$ 71,874	$ 1,823	$ 131	$ 149,920
Land Income				17	17
Other			3		3
Total Revenues	76,092	71,874	1,826	148	149,940
EXPENDITURES					
Current:					
General Government	1,904	1,706	68	163	3,841
Natural Resources and Recreation				34	34
Total Expenditures	1,904	1,706	68	197	3,875
Excess (Deficiency) of Revenues Over (Under) Expenditures	74,188	70,168	1,758	(49)	146,065
OTHER FINANCING SOURCES (USES)					
Transfer In			350		350
Transfer Out	(21,909)		(350)	(17)	(22,276)
Total Other Financing Sources (Uses)	(21,909)	0	0	(17)	(21,926)
Net Change in Fund Balances	52,279	70,168	1,758	(66)	124,139
Fund Balances, September 1, 2004	477,399	425,904	11,513	3,014	917,830
Fund Balances, August 31, 2005	$ 529,678	$ 496,072	$ 13,271	$ 2,948	$1,041,969

Enterprise Funds

2005

Nonmajor Enterprise Funds

The **Texas Workforce Commission Unemployment Trust Fund Accounts** are funds collected under the Old Age and Survivors Insurance Act on deposit with the Treasurer of the United States of America to the credit of this state. It also serves as a clearance fund for the Unemployment Compensation Fund held by the United States Treasury and as a holding account for paying benefits under the Unemployment Compensation Act.

The **Texas Department of Housing and Community Affairs** issues bonds to assist in financing the purchase of homes or the construction of rental housing for families with low to moderate incomes. Loan payments and rentals provide the revenue for debt service payments.

The **Texas Lottery Commission** accounts for the operation of lottery games for the state. This fund includes both the net proceeds from the lottery and accounts for future installment obligations to prize winners.

The **Veterans Land Board Loan Program Funds** were previously reported as a major fund on the Statement of Net Assets Proprietary Funds.

The **Texas Department of Criminal Justice Institutional Division** accounts for the proceeds of the Institutional Division's commissary operations and other miscellaneous revenue.

The **Teacher Retirement System** includes the TRS-ActiveCare Fund which provides health care coverage to employees (and their dependents) of participating public education entities.

The **Texas Prepaid Higher Education Tuition Board** offers a program that allows Texas families to lock in the cost of tomorrow's college tuition and required fees at today's prices.

State of Texas
Combining Statement of Net Assets
Nonmajor Enterprise Funds
August 31, 2005 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds*
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 1,579	$ 25,784	$ 137,173	$
Securities Lending Collateral				49,941
Restricted:				
Cash and Cash Equivalents	1,625,071	152,322		177,551
Short Term Investments		203,360	170,732	
Loans and Contracts		7,499		48,830
Receivables:				
Federal	4,023			2,708
Accounts	258,814	1,159	16,600	53,985
Interest and Dividends	11,618	12,384		10,114
Investment Trades				
Other		70		
Due From Other Funds	2,652		6	786
Interfund Receivable				
Inventories		5	6,164	94
Prepaid Items			9,333	
Loans and Contracts		842		
Other Current Assets		1,185		
Total Current Assets	1,903,757	404,610	340,008	344,009
Non-Current Assets:				
Restricted:				
Cash and Cash Equivalents				
Investments		1,036,517	1,238,430	384,007
Receivables				
Loans and Contracts		1,081,918		1,785,448
Other				2,483
Loans and Contracts		4,829		
Capital Assets:				
Non-Depreciable				4,351
Depreciable		1,389	5,941	65,360
Accumulated Depreciation		(1,176)	(5,119)	(8,700)
Assets Held in Trust				
Other Non-Current Assets	2,874	11,526		
Total Non-Current Assets	2,874	2,135,003	1,239,252	2,232,949
Total Assets	1,906,631	2,539,613	1,579,260	2,576,958

* The Veterans Land Board Loan Program Funds were previously reported as a major fund on the Statement of Net Assets Proprietary Funds.

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$	$ 358,502	$ 28,995	$ 13,169	$ 565,202
		264,950		314,891
		93,321		2,048,265
				374,092
				56,329
				6,731
1,077	33,807		155	365,597
	1,048	8,339	70	43,573
		103,491		103,491
			624	694
29,968				33,412
30				30
8,004			944	15,211
			86	9,419
		89,543	13,803	104,188
				1,185
39,079	393,357	588,639	28,851	4,042,310
			5,830	5,830
		1,446,328	15	4,105,297
		256,871		256,871
				2,867,366
				2,483
				4,829
283			410	5,044
4,221		2,427	4,774	84,112
(3,473)		(1,952)	(2,426)	(22,846)
			3,914	3,914
			5	14,405
1,031	0	1,703,674	12,522	7,327,305
40,110	393,357	2,292,313	41,373	11,369,615

Concluded on the following page

State of Texas
Combining Statement of Net Assets
Nonmajor Enterprise Funds (concluded)
August 31, 2005 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds*
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	$ 77,637	$ 914	$ 27,630	$ 5,384
Payroll			1,324	
Investment Trades				
Interest	5,659	27,173		14,248
Due To Other Funds			9,729	136
Interfund Payable		75		
Deferred Revenue	24,468	10,512		704
Obligations/Securities Lending				49,941
Capital Lease Obligations				
Employees' Compensable Leave		366	981	
Notes and Loans Payable				
General Obligation Bonds Payable				52,412
Revenue Bonds Payable	179,294	88,871		295
Liabilities Payable From Restricted Assets			250,187	
Other Current Liabilities		7,464	11,619	1,107
Total Current Liabilities	287,058	135,375	301,470	124,227
Non-Current Liabilities:				
Capital Lease Obligations				
Employees' Compensable Leave		136	519	
Liabilities Payable From Restricted Assets			1,185,078	
General Obligation Bonds Payable				1,750,424
Revenue Bonds Payable	853,976	2,078,628		25,394
Assets Held for Others				
Other Non-Current Liabilities		236,458		
Total Non-Current Liabilities	853,976	2,315,222	1,185,597	1,775,818
Total Liabilities	1,141,034	2,450,597	1,487,067	1,900,045
NET ASSETS				
Invested in Capital Assets, Net of Related Debt		213	822	36,033
Restricted for:				
Debt Retirement	196,033	61,632		
Veterans Land Board Housing Programs				640,880
Unemployment Trust Funds	1,600,677			
Other			18,774	
Unrestricted	(1,031,113)	27,171	72,597	
Total Net Assets	$ 765,597	$ 89,016	$ 92,193	$ 676,913

* The Veterans Land Board Loan Program Funds were previously reported as a major fund on the Statement of Net Assets Proprietary Funds.

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$ 6,494	$ 81,292	$ 1,315	$ 654	$ 201,320
1,245			588	3,157
		104,058		104,058
				47,080
		95	1,104	11,064
				75
			38	35,722
		264,950		314,891
			110	110
859	73	49	370	2,698
			15,000	15,000
				52,412
				268,460
		147,149		397,336
			1	20,191
8,598	81,365	517,616	17,865	1,473,574
			558	558
261		46	240	1,202
		1,882,395		3,067,473
				1,750,424
				2,957,998
			3,914	3,914
			2	236,460
261	0	1,882,441	4,714	8,018,029
8,859	81,365	2,400,057	22,579	9,491,603
1,031		476	528	39,103
				257,665
				640,880
				1,600,677
			653	19,427
30,220	311,992	(108,220)	17,613	(679,740)
$ 31,251	$ 311,992	$ (107,744)	$ 18,794	$ 1,878,012

State of Texas
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds*
OPERATING REVENUES				
Lottery Collections	$	$	$ 3,662,841	$
Auxiliary Enterprises - Pledged				
Unemployment Taxes	1,963,403			
Other Sales of Goods and Services				
Other Sales of Goods and Services - Pledged				19,487
Interest and Investment Income		93,374		95,729
Federal Revenue	85,066			10,730
Premium Revenue				
Other Revenues	116,000	12,647	573	410
Other Revenues - Pledged				
Total Operating Revenues	2,164,469	106,021	3,663,414	126,356
OPERATING EXPENSES				
Cost of Goods Sold				
Salaries and Wages		6,087	12,844	
Payroll Related Costs		1,574	2,886	
Professional Fees and Services		1,464	4,929	28,931
Travel		254	248	30
Materials and Supplies		310	2,014	1,274
Communication and Utilities		124	326	24
Repairs and Maintenance		181	746	67
Rentals and Leases		1,024	6,012	
Printing and Reproduction		18	13,115	6
Depreciation and Amortization		651	404	1,986
Unemployment Benefit Payments	1,510,866			
Bad Debt Expense		816	558	
Interest Expense		108,098	1	79,504
Lottery Prize Payments			2,415,463	
Employee/Participant Benefit Payments				
Other Expenses		3,733	134,695	4,296
Total Operating Expenses	1,510,866	124,334	2,594,241	116,118
Operating Income (Loss)	653,603	(18,313)	1,069,173	10,238

* The Veterans Land Board Loan Program Funds were previously reported as a major fund on the Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds.

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$	$	$	$	$ 3,662,841
77,131				77,131
				1,963,403
		(28,610)	8,474	(20,136)
				19,487
			835	189,938
				95,796
	823,910			823,910
393		1,917	6,582	138,522
			247	247
77,524	823,910	(26,693)	16,138	6,951,139
54,549			1,752	56,301
11,636	610	955	6,114	38,246
3,395	185	218	1,414	9,672
1	687	5,725	699	42,436
25	4	5	57	623
543	33	110	432	4,716
15	1	35	161	686
161		363	243	1,761
662	74	28	1,199	8,999
57	4	34	116	13,350
147		483	477	4,148
				1,510,866
			839	2,213
3			389	187,995
				2,415,463
	759,633	40,295		799,928
112	10	3,361	2,354	148,561
71,306	761,241	51,612	16,246	5,245,964
6,218	62,669	(78,305)	(108)	1,705,175

Concluded on the following page

State of Texas
Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets
Nonmajor Enterprise Funds (concluded)
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds*
NONOPERATING REVENUES (EXPENSES)				
Federal Revenue	$	$	$	$ 6,883
Gifts				7
Interest and Investment Income (Loss)	55,860	1,276	(12,869)	23,699
Loan Premium and Fees on Securities Lending			29	
Investing Actvities Expense				
Interest Expense	(28,264)			(2,053)
Borrower Rebates and Agent Fees				(1,284)
Gain on Sale of Capital Assets				
Claims and Judgments			(1)	
Other Revenues				
Other Expenses	(1,330)	(1,514)		
Total Nonoperating Revenues (Expenses)	26,266	(238)	(12,841)	27,252
Income (Loss) Before Capital Contributions, Endowments, and Transfers	679,869	(18,551)	1,056,332	37,490
CAPITAL CONTRIBUTIONS, ENDOWMENTS, AND TRANSFERS				
Capital Contributions - Other			(18)	46
Transfer In	263			785
Transfer Out			(1,070,303)	(17,752)
Total Capital Contributions, Endowments, and Transfers	263	0	(1,070,321)	(16,921)
Change in Net Assets	680,132	(18,551)	(13,989)	20,569
Net Assets, September 1, 2004	85,465	107,567	107,067	656,344
Restatements			(885)	
Net Assets, September 1, 2004, as Restated	85,465	107,567	106,182	656,344
Net Assets, August 31, 2005	$ 765,597	$ 89,016	$ 92,193	$ 676,913

* The Veterans Land Board Loan Program Funds were previously reported as a major fund on the Statement of Revenues, Expenses, and Changes in Fund Net Assets Proprietary Funds.

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$	$	$	$ 22	$ 6,905
				7
	8,916	192,935	436	270,253
		6,876		6,905
		(10)		(10)
			(39)	(30,356)
		(6,388)		(7,672)
			6	6
			(9)	(10)
	36		11	47
				(2,844)
0	8,952	193,413	427	243,231
6,218	71,621	115,108	319	1,948,406
				28
3,653			10	4,711
(3,759)			(709)	(1,092,523)
(106)	0	0	(699)	(1,087,784)
6,112	71,621	115,108	(380)	860,622
25,139	240,371	(222,852)	58,444	1,057,545
			(39,270)	(40,155)
25,139	240,371	(222,852)	19,174	1,017,390
$ 31,251	$ 311,992	$ (107,744)	$ 18,794	$ 1,878,012

State of Texas
Combining Statement of Cash Flows – Nonmajor Enterprise Funds
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds*
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from Customers	$1,967,226	$	$3,684,191	$ 29,474
Proceeds from Research Grants and Contracts	84,854			
Proceeds from Loan Programs		89,189		921,245
Proceeds from Other Revenues	122,423	13,187		870
Payments to Suppliers for Goods and Services		(8,775)	(346,624)	(30,023)
Payments to Employees		(7,783)	(15,547)	
Payments for Loans Provided		(195,749)		(890,363)
Payments for Other Expenses	(1,479,962)		(2,213,690)	(3,921)
Net Cash Provided by Operating Activities	694,541	(109,931)	1,108,330	27,282
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Proceeds from Debt Issuance		488,925		218,625
Proceeds from Transfers from Other Funds	3,905,566	10,263		164,371
Proceeds from Other Financing Activities			17,004	
Payments of Principal on Debt Issuance	(297,269)	(279,661)		
Payments of Interest	(28,876)	(103,985)		(210,791)
Payments of Other Costs of Debt Issuance		(1,897)		
Payments for Transfers to Other Funds	(3,875,904)	(10,263)	(1,076,830)	(186,550)
Payments for Other Uses	(599)	(30)	(161,864)	
Net Cash Provided by Noncapital Financing Activities	(297,082)	103,352	(1,221,690)	(14,345)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from Other Financing Activities				6,532
Proceeds of Advances from Other Funds				3,965
Payments for Additions to Capital Assets		(50)	(207)	(10,499)
Net Cash Provided by Capital and Related Financing Activities	0	(50)	(207)	(2)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from Sale of Investments		1,417,848	161,863	192,580
Proceeds from Interest and Investment Income	53,962	55,367	33	14,974
Payments for Non-Program Loans Provided			(894)	
Payments to Acquire Investments		(1,489,046)	(17,004)	(157,806)
Net Cash Provided by Investing Activities	53,962	(15,831)	143,998	49,748
Net Increase (Decrease) in Cash and Cash Equivalents	451,421	(22,460)	30,431	62,683
Cash and Cash Equivalents, September 1, 2004	1,175,229	200,566	107,627	114,868
Restatements			(885)	
Cash and Cash Equivalents, September 1, 2004, as Restated	1,175,229	200,566	106,742	114,868
Cash and Cash Equivalents, August 31, 2005	$1,626,650	$ 178,106	$ 137,173	$ 177,551

* The Veterans Land Board Loan Program Funds were previously reported as a major fund on the Statement of Cash Flows Proprietary Funds.

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$ 77,097	$ 826,910	$ 108,577	$ 8,503	$6,701,978
				84,854
			1,827	1,012,261
394		25	6,777	143,676
(53,817)	(749,966)	(10,606)	(1,847)	(1,201,658)
(15,031)			(7,376)	(45,737)
			(3,215)	(1,089,327)
(1,580)	(1,469)	(58,008)	(6,270)	(3,764,900)
7,063	75,475	39,988	(1,601)	1,841,147
			1,000	708,550
3,653			8,145	4,091,998
			32	17,036
			(1)	(576,931)
			(408)	(344,060)
			(15)	(1,912)
(10,710)			(8,848)	(5,169,105)
				(162,493)
(7,057)	0	0	(95)	(1,436,917)
				6,532
				3,965
(6)			(289)	(11,051)
(6)	0	0	(289)	(554)
35,400				1,807,691
295	8,213	42,879	473	176,196
				(894)
(35,695)		(117,748)		(1,817,299)
0	8,213	(74,869)	473	165,694
0	83,688	(34,881)	(1,512)	569,370
	274,814	157,197	59,766	2,090,067
			(39,255)	(40,140)
0	274,814	157,197	20,511	2,049,927
$ 0	$ 358,502	$ 122,316	$ 18,999	$2,619,297

State of Texas
Combining Statement of Cash Flows – Nonmajor Enterprise Funds
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Texas Workforce Commission Unemployment Trust Fund Accounts	Texas Department of Housing and Community Affairs	Texas Lottery Commission	Veterans Land Board Loan Program Funds*
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES				
Operating Income (Loss)	$ 653,603	$ (18,313)	$1,069,173	$ 10,238
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities:				
Depreciation and Amortization		651	404	1,986
Bad Debt Expense		816	558	
Operating Income (Loss) and Cash Flow Categories Classification Differences		62,534		79,375
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	33,085	(2,052)	20,779	8,096
(Increase) Decrease in Due From Other Funds				
(Increase) Decrease in Inventories			(428)	
(Increase) Decrease in Loans and Contracts		(155,065)		(74,527)
(Increase) Decrease in Other Assets		(65)		2,088
(Increase) Decrease in Prepaid Expenses			1,556	
Increase (Decrease) in Payables	5,411	3,242	16,288	353
Increase (Decrease) in Due To Other Funds				
Increase (Decrease) in Deferred Revenue	2,442	420		
Increase (Decrease) in Compensated Absence Liability				
Increase (Decrease) in Benefits Payable				
Increase (Decrease) in Other Liabilities		(2,099)		(327)
Total Adjustments	40,938	(91,618)	39,157	17,044
Net Cash Provided by Operating Activities	$ 694,541	$ (109,931)	$1,108,330	$ 27,282
NON CASH TRANSACTIONS				
Net Change in Fair Value of Investments		$ 13,499	$ 12,874	$ (4,552)

* The Veterans Land Board Loan Program Funds were previously reported as a major fund on the Statement of Cash Flows Proprietary Funds.

Texas Department of Criminal Justice Institutional Division	Teacher Retirement System	Texas Prepaid Higher Education Tuition Board	Other Nonmajor Enterprise Funds	Totals
$ 6,218	$ 62,669	$ (78,305)	$ (108)	$1,705,175
147		483	477	4,148
			839	2,213
		(4)	(884)	141,021
(34)	2,954	135,300	(50)	198,078
		(3)	26	23
(711)			(90)	(1,229)
			(2,147)	(231,739)
			(608)	1,415
			(87)	1,469
1,443	9,852	232	190	37,011
			(116)	(116)
			(26)	2,836
			(3)	(3)
		(17,715)		(17,715)
			986	(1,440)
845	12,806	118,293	(1,493)	135,972
$ 7,063	$ 75,475	$ 39,988	$ (1,601)	$1,841,147
		$ (149,399)		$ (127,578)

Colleges and Universities – Major Enterprise Fund

There are six university system offices and five independent universities in Texas' primary government presented in a single-column as a major fund on the Basic Financial Statements. Schedules have been prepared to report the breakdown of the following universities.

The University of Texas System
Texas A&M University System
Texas Tech University System
The University of Houston System
Texas State University System
The University of North Texas System
Texas Woman's University
Stephen F. Austin State University
Texas Southern University
Midwestern State University
Texas State Technical College

State of Texas
Schedule of Net Assets
Colleges and Universities – Major Enterprise Fund
August 31, 2005 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
ASSETS					
Current Assets:					
Cash and Cash Equivalents	$ 2,136,909	$ 153,122	$ 211,979	$ 153,035	$ 381,567
Short Term Investments		213,793		45,527	398
Securities Lending Collateral	1,420,107	240,162			
Restricted:					
Cash and Cash Equivalents	605,301	84,398	83,813	16,709	22,271
Short Term Investments		151,181			
Loans and Contracts				7,714	
Receivables:					
Federal	153,085	72,873	11,912	10,290	10,231
Other Intergovernmental	32,636	16,012			
Accounts	196,927	33,165	794		50,663
Interest and Dividends	44,281	7,750	1,300	1,512	287
Gifts	65,960	5,788	20,870	16,853	
Investment Trades	312,903	20,592			
Other	675,917	74,435	23,533	17,133	2,453
Due From Other Funds	82,663	80,482	44,115	61,646	48,096
Due From Component Units			10		
Interfund Receivable		4,310			
Inventories	71,740	28,660	4,092	3,127	3,581
Prepaid Items		462	12,269	26,784	21,075
Loans and Contracts	36,418	15,838	4,041		5,904
Other Current Assets	58,631	17,950	77		17,892
Total Current Assets	5,893,478	1,220,973	418,805	360,330	564,418
Non-Current Assets:					
Restricted:					
Cash and Cash Equivalents	280		18,991	21,362	35,170
Short Term Investments					
Investments	17,432,258	590,435	139,555		105,782
Receivables				10	8,218
Loans and Contracts	90,726	4,745		10,836	836
Other					2,838
Loans and Contracts		25,813	3,159		1,609
Investments	1,203,546	1,176,168	562,464	502,687	45,363
Interfund Receivable		304,625			
Gifts	95,010	1,530	42,447		
Capital Assets:					
Non-Depreciable	1,475,448	456,764	209,835	196,928	239,357
Depreciable	9,844,405	3,215,821	1,222,602	956,658	1,233,947
Accumulated Depreciation	(4,265,128)	(1,930,091)	(628,761)	(644,857)	(729,986)
Assets Held in Trust		362			
Other Non-Current Assets	25,152	1,139			1,233
Total Non-Current Assets	25,901,697	3,847,311	1,570,292	1,043,624	944,367
Total Assets	31,795,175	5,068,284	1,989,097	1,403,954	1,508,785

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 159,275	$ 10,277	$ 37,615	$ 32,869	$ 3,223	$ 21,354	$ 3,301,225
44,299	31,562	1,074		16,167	8,659	361,479
						1,660,269
6,826	2,531	19,339		76	2,354	843,618
2,189	31,810	21,110	44,845	744	930	252,809
				13		7,727
11,650	3,552	961	4,351	175	1,436	280,516
249		476				49,373
25,339	6,081	5,279	13,215	3,586	11,689	346,738
1,023	564	159		213	83	57,172
1,127	21,739		2,821	301		135,459
						333,495
6,930	4,037	1,309		1,048	605	807,400
38,015	3,596	5,973	5,959	2,453	8,545	381,543
						10
						4,310
3,209	571	502	548	291	2,728	119,049
	1,080	10,379				72,049
6,950	5,441	3,443				78,035
19,274			4,883	4,662		123,369
326,355	122,841	107,619	109,491	32,952	58,383	9,215,645
					12	75,815
				10,087	201	10,288
47,658	46,348	26,985	16,448	671		18,406,140
						8,228
4,576		6,225	2,192	86		120,222
						2,838
						30,581
37,660		16,771		10,773		3,555,432
						304,625
1,679			1,612	1,000		143,278
114,777	35,436	27,541	40,706	18,903	4,453	2,820,148
646,180	224,186	220,603	302,407	118,160	144,006	18,128,975
(347,769)	(114,717)	(162,774)	(174,848)	(62,338)	(94,624)	(9,155,893)
836						1,198
331		2,841				30,696
505,928	191,253	138,192	188,517	97,342	54,048	34,482,571
832,283	314,094	245,811	298,008	130,294	112,431	43,698,216

Concluded on the following page

State of Texas
Schedule of Net Assets
Colleges and Universities – Major Enterprise Fund (concluded)
August 31, 2005 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
LIABILITIES					
Current Liabilities:					
Payables:					
Accounts	$ 788,956	$ 77,574	$ 28,675	$ 21,277	$ 24,769
Payroll		81,386	39,271	30,235	13,666
Other Intergovernmental	47			3,887	8,060
Federal	68,721			866	
Investment Trades	718,558	42,226			
Interest					
Due To Other Funds	8,572	1,551	161		167
Interfund Payable	4,310				
Deferred Revenue	717,246	294,935	89,413	104,713	176,339
Obligations/Securities Lending	1,420,107	240,162			
Claims and Judgments		11,474	2,420		
Capital Lease Obligations	980	279			28
Employees' Compensable Leave	186,175	4,381	5,786	7,959	9,538
Notes and Loans Payable	543,974	970	35,858		
General Obligation Bonds Payable					
Revenue Bonds Payable	155,670	67,758	17,960	15,317	20,782
Liabilities Payable From Restricted Assets	191,343	16,537	26,325		
Funds Held for Others	16,197	34,668	10,633	6,824	9,466
Other Current Liabilities	107,686	10,014	801		12,748
Total Current Liabilities	4,928,542	883,915	257,303	191,078	275,563
Non-Current Liabilities:					
Interfund Payable	313,293	8,359	1,533		
Claims and Judgments		9,918	21,782		
Capital Lease Obligations	1,974	1,548			59
Employees' Compensable Leave	150,884	75,144	20,965	9,343	7,279
Notes and Loans Payable	26,039	28,230			1,252
General Obligation Bonds Payable					
Revenue Bonds Payable	3,018,717	1,117,918	335,570	292,760	366,045
Assets Held for Others	383,108	362			
Other Non-Current Liabilities	107,692	61,116	78		874
Total Non-Current Liabilities	4,001,707	1,302,595	379,928	302,103	375,509
Total Liabilities	8,930,249	2,186,510	637,231	493,181	651,072
NET ASSETS					
Invested in Capital Assets, Net of Related Debt	3,610,695	585,711	455,814	240,935	356,403
Restricted for:					
Education	1,214,724	190,430	108,061	66,822	69,002
Debt Retirement	5,241		7,698	15	3,015
Capital Projects	39,539	6,205	19,109	2,588	9,695
Funds Held as Permanent Investments:					
Nonexpendable	14,634,712	397,783	348,791	365,200	141,159
Expendable	187,147	67,599			2,263
Unrestricted	3,172,868	1,634,046	412,393	235,213	276,176
Total Net Assets	$22,864,926	$ 2,881,774	$ 1,351,866	$ 910,773	$ 857,713

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 15,109	$ 13,298	$ 5,249	$ 9,013	$ 1,796	$ 3,266	$ 988,982
25,697		4,875	4,883		5,308	205,321
		1,384				13,378
					240	69,827
						760,784
		1,168	1,886			3,054
1,355	117			75		11,998
						4,310
106,739	42,880	37,972	34,590	15,748	12,287	1,632,862
						1,660,269
						13,894
13	153	149		191	458	2,251
1,100	1,654	265	139	121	336	217,454
28,858						609,660
		440	2,540	875		3,855
7,835	3,165	3,605	5,375	1,300	420	299,187
		558				234,763
9,135		9,156	424	68	2,773	99,344
2,660	2,596	137	2,188	4,082	576	143,488
198,501	63,863	64,958	61,038	24,256	25,664	6,974,681
					211	323,396
						31,700
	2,505	418		390	3,856	10,750
11,281	982	2,117	2,852	901	4,299	286,047
						55,521
			38,520	10,310		48,830
185,750	50,430	69,145	111,090	26,475	9,155	5,583,055
	167					383,637
93		719	2,789	228	10	173,599
197,124	54,084	72,399	155,251	38,304	17,531	6,896,535
395,625	117,947	137,357	216,289	62,560	43,195	13,871,216
191,124	88,816	49,978	58,108	42,906	40,190	5,720,680
25,185	1,999	12,619		3,246	1,117	1,693,205
1,902		300				18,171
3,741		1,894			269	83,040
12,630	6,545	6,140	21,037		213	15,934,210
2,497	52,730	2,586		4,207		319,029
199,579	46,057	34,937	2,574	17,375	27,447	6,058,665
$ 436,658	$ 196,147	$ 108,454	$ 81,719	$ 67,734	$ 69,236	$29,827,000

State of Texas
Schedule of Revenues, Expenses, and Changes in Fund Net Assets
Colleges and Universities – Major Enterprise Fund
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
OPERATING REVENUES					
Tuition Revenue	$	$	$ 26,446	$ 291,734	$ 279,444
Tuition Revenue - Pledged	991,012	505,333	177,802	569	8,176
Discounts and Allowances	(204,551)	(107,847)	(18,843)	(47,168)	(46,632)
Hospital Revenue - Pledged	4,720,529				
Discounts and Allowances	(2,417,977)				
Professional Fees	2,585,563	8,676	113,958		
Professional Fees - Pledged	4,500	4,080			
Discounts and Allowances	(1,817,697)		(29,525)		
Auxiliary Enterprises				38,490	30,627
Auxiliary Enterprises - Pledged	294,622	195,952	69,006		47,509
Discounts and Allowances	(7,570)	(14,740)			(5,930)
Other Sales of Goods and Services		16,381	5,633	17,906	12,745
Other Sales of Goods and Services - Pledged	247,375	95,838	6,327		
Discounts and Allowances	(97)				
Interest and Investment Income		1,907			248
Interest and Investment Income - Pledged					93
Federal Revenue	1,281,323	568,238	56,244	89,436	76,391
State Grant Revenue	41,133	52,039	85,260	10,860	6,709
Other Operating Grant Revenue	215,302	81,609	95,059	6,693	8,013
Other Operating Grant Revenue - Pledged	302,083	6,471			
Other Revenues	8,545	17,713	168	10,745	11,697
Other Revenues - Pledged	88,464	14,559			
Total Operating Revenues	6,332,559	1,446,209	587,535	419,265	429,090
OPERATING EXPENSES					
Cost of Goods Sold	103,550	20,753		1,686	5,503
Salaries and Wages	4,317,091	1,122,124	454,494	373,957	333,810
Payroll Related Costs	1,006,855	242,830	101,483	77,955	75,667
Professional Fees and Services	309,290	126,030	59,545	34,081	34,077
Travel	97,920	53,581	9,952	10,487	10,537
Materials and Supplies	896,998	190,626	65,931	39,528	57,477
Communication and Utilities	243,503	101,308	35,074	37,224	30,228
Repairs and Maintenance	127,821	61,976	16,241	8,645	12,364
Rentals and Leases	92,280	26,867	8,119	12,019	8,948
Printing and Reproduction	23,789	13,525	5,821	4,586	3,670
Depreciation and Amortization	477,825	114,829	42,553	29,893	28,458
Bad Debt Expense	1,424	54		2,533	346
Interest Expense		70		2,439	12
Scholarships	218,987	86,250	32,385	44,853	52,840
Claims and Judgments	13,394	1,206	318	1,546	23
Other Expenses	535,928	263,739	39,595	24,608	36,042
Total Operating Expenses	8,466,655	2,425,768	871,511	706,040	690,002
Operating (Loss)	(2,134,096)	(979,559)	(283,976)	(286,775)	(260,912)

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 67,244	$ 47,324	$ 3,027	$	$	$ 2,757	$ 717,976
109,255	13	44,888	55,159	19,007	22,205	1,933,419
(19,330)	(5,040)	(8,663)	(16,354)		(10,470)	(484,898)
						4,720,529
						(2,417,977)
29,897						2,738,094
						8,580
(761)						(1,847,983)
1,394	6,501	945			1,079	79,036
31,598	8,480	20,512	4,632	3,982	15,339	691,632
(102)		(3,709)	(1,130)		(1,608)	(34,789)
18,684		815	1,079			73,243
		3,136	2,474	954	4,021	360,125
						(97)
						2,155
		66	68		311	538
53,918	9,404	13,945	38,209	621	19,781	2,207,510
947	353	468	588		852	199,209
4,521		1,193		163	552	413,105
	962		3,586			313,102
599		5	3,680			53,152
	881	64		584	3	104,555
297,864	68,878	76,692	91,991	25,311	54,822	9,830,216
1,131	312	5,376			5,129	143,440
248,681	60,080	64,119	67,998	28,465	61,401	7,132,220
52,305	13,149	15,142	13,683	6,881	16,427	1,622,377
15,687	1,318	1,711	7,327	2,096	1,119	592,281
6,437	1,284	1,934	2,080	869	1,092	196,173
36,437	10,781	5,472	7,125	4,607	12,310	1,327,292
15,771	5,708	9,180	4,542	2,189	6,117	490,844
10,955	3,363	1,640	1,472	1,303	2,631	248,411
7,694	1,118	1,252	1,248	460	1,196	161,201
3,017	468	550	621	348	242	56,637
19,515	8,168	4,058	9,163	4,140	5,718	744,320
864	583		1,392	143		7,339
3		2	2		1	2,529
31,513	14,896	11,138	18,406	5,799	8,531	525,598
		28	1,058		58	17,631
15,868	4,123	8,445	13,902		6,591	948,841
465,878	125,351	130,047	150,019	57,300	128,563	14,217,134
(168,014)	(56,473)	(53,355)	(58,028)	(31,989)	(73,741)	(4,386,918)

Concluded on the following page

State of Texas
Schedule of Revenues, Expenses, and Changes in Fund Net Assets
Colleges and Universities – Major Enterprise Fund (concluded)
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
NONOPERATING REVENUES (EXPENSES)					
Federal Revenue	$	$ 26,513	$ 770	$	$
Gifts	228,888	51,467	37,133	29,639	12,331
Gifts - Pledged	21,876	22,414			
Land Income		5,579			
Interest and Investment Income	3,083,181	146,845	80,556	58,446	18,478
Interest and Investment Income (Loss) - Pledged	247,191	75,944	13,979		
Investing Activities Expense	(69,841)	(6,728)			(80)
Interest Expense	(135,005)	(67,433)	(15,964)	(12,981)	(16,650)
Borrower Rebates and Agent Fees		(849)			
Gain (Loss) on Sale of Capital Assets	(11,005)	22,683	(4,130)	(4)	
Settlement of Claims					
Claims and Judgments		(567)			(171)
Other Revenues	178	3,050			1,653
Other Revenues - Pledged	15,297	3,318	8,049		
Other Expenses	(13,045)	(36,183)		(34,250)	
Total Nonoperating Revenues (Expenses)	3,367,715	246,053	120,393	40,850	15,561
Income (Loss) Before Capital Contributions, Endowments, and Transfers	1,233,619	(733,506)	(163,583)	(245,925)	(245,351)
CAPITAL CONTRIBUTIONS, ENDOWMENTS, AND TRANSFERS					
Capital Contributions (Distributions) - Other	125,478	26,792	4,653	21	13
Contributions to Permanent and Term Endowments	94,389	15,030	12,956	8,992	5,372
Transfer In	2,165,300	1,056,397	284,799	288,434	304,945
Transfer Out	(618,640)	(19,461)	(2,499)	(4,236)	(3,631)
Total Capital Contributions, Endowments, and Transfers	1,766,527	1,078,758	299,909	293,211	306,699
Change in Net Assets	3,000,146	345,252	136,326	47,286	61,348
Net Assets, September 1, 2004	20,393,733	2,502,516	1,228,075	906,150	858,228
Restatements	(528,953)	34,006	(12,535)	(42,663)	(61,863)
Net Assets, September 1, 2004, as Restated	19,864,780	2,536,522	1,215,540	863,487	796,365
Net Assets, August 31, 2005	$22,864,926	$ 2,881,774	$ 1,351,866	$ 910,773	$ 857,713

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$	$	$	$	$ 4,816	$	$ 32,099
7,677		2,399		2,510	12	372,056
	6,931		450			51,671
						5,579
11,508	4,150	461	1,120			3,404,745
	(820)	1,212	1,524	935	554	340,519
		(107)	(1,890)			(78,646)
(9,625)	(3,256)	(1,021)	(6,082)	(817)	(630)	(269,464)
						(849)
(355)	(69)	(42)	(4)	(247)	(402)	6,425
		20				20
(720)						(1,458)
1,043		89		124	277	6,414
12	2,940		6,218			35,834
(9)		(1)	(5,497)	(125)	(1,735)	(90,845)
9,531	9,876	3,010	(4,161)	7,196	(1,924)	3,814,100
(158,483)	(46,597)	(50,345)	(62,189)	(24,793)	(75,665)	(572,818)
16			(4)	4,969	735	162,673
6,248		583	1,938	411		145,919
195,855	63,015	57,788	63,439	25,450	78,251	4,583,673
(2,685)	(1,137)	(405)	(40)	(26)	(1,527)	(654,287)
199,434	61,878	57,966	65,333	30,804	77,459	4,237,978
40,951	15,281	7,621	3,144	6,011	1,794	3,665,160
430,432	190,993	115,410	108,807	68,933	67,442	26,870,719
(34,725)	(10,127)	(14,577)	(30,232)	(7,210)		(708,879)
395,707	180,866	100,833	78,575	61,723	67,442	26,161,840
$ 436,658	$ 196,147	$ 108,454	$ 81,719	$ 67,734	$ 69,236	$29,827,000

State of Texas
Schedule of Cash Flows
Colleges and Universities – Major Enterprise Fund

For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
CASH FLOWS FROM OPERATING ACTIVITIES					
Receipts from Customers	$ 2,991,805	$ 92,297	$ 91,255	$ 21,526	$ 18,412
Proceeds from Tuition and Fees	813,452	453,037	201,451	259,725	256,862
Proceeds from Research Grants and Contracts	2,056,362	894,290	238,686	14,258	39,651
Proceeds from Gifts				1,730	2,256
Proceeds from Loan Programs	94,070	14,596	1,170	8,730	11,893
Proceeds from Auxiliaries	301,170	181,321	70,538	39,413	65,794
Proceeds from Other Revenues	344,357	27,286	17,183	156,222	87,632
Payments to Suppliers for Goods and Services	(2,570,288)	(883,953)	(210,804)	(165,156)	(181,442)
Payments to Employees	(5,327,350)	(1,368,699)	(446,781)	(459,376)	(408,483)
Payments for Loans Provided	(93,904)	(12,428)	(1,027)	(9,227)	(11,565)
Payments for Other Expenses	(3,051)	(155,634)	(193,828)	(67,485)	(72,712)
Net Cash Provided by Operating Activities	(1,393,377)	(757,887)	(232,157)	(199,640)	(191,702)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Proceeds from State Appropriations	1,570,816	775,823	248,311	220,243	276,521
Proceeds from Gifts	201,458	75,877	49,148	26,625	10,751
Proceeds from Endowments	133,436	15,023		9,373	1,122
Proceeds from Transfers from Other Funds		136,967	3,651	17,523	
Proceeds from Grant Receipts		26,513			321
Proceeds from Other Financing Activities	19,441	40,169	4,405	12,233	10,890
Proceeds from Contributed Capital					
Payments of Principal on Debt Issuance			(42)		(4,780)
Payments of Interest					
Payments of Other Costs of Debt Issuance					
Payments for Transfers to Other Funds	(177,977)	(3,156)	(1,132)		(22,799)
Payments for Other Uses	(29,055)	(10,276)		(67,038)	(13,888)
Net Cash Provided by Noncapital Financing Activities	1,718,119	1,056,940	304,341	218,959	258,138
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Proceeds from Sale of Capital Assets	3,319	20,964		3	37
Proceeds from Debt Issuance	1,272,641	78,220	22,500	25,691	43,567
Proceeds from State Grants and Contracts		19,159			
Proceeds from Gifts					
Proceeds from Other Financing Activities				1,106	
Proceeds from Capital Contributions	138,664		4,651	36,953	
Proceeds of Advances from Other Funds		4,814	28,697		37,989
Payments for Additions to Capital Assets	(1,286,538)	(267,164)	(106,633)	(72,478)	(96,353)
Payments of Principal on Debt Issuance	(739,414)	(82,237)	(35,036)	(15,825)	(49,194)
Payments for Capital Leases		(232)			
Payments of Interest on Debt Issuance	(126,422)	(52,133)		(12,964)	(17,451)
Payments on Other Costs of Debt Issuance	(8,628)	(142)	(62)	(5,553)	(1,721)
Net Cash Provided by Capital and Related Financing Activities	(746,378)	(278,751)	(85,883)	(43,067)	(83,126)
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from Sale of Investments	17,889,981	4,549,512	121,729		47,341
Proceeds from Interest and Investment Income	730,634	86,552	54,988	59,019	16,662
Payments to Acquire Investments	(17,915,787)	(4,681,184)	(163,281)	(26,793)	(21,443)
Net Cash Provided by Investing Activities	704,828	(45,120)	13,436	32,226	42,560
Net Increase (Decrease) in Cash and Cash Equivalents	283,192	(24,818)	(263)	8,478	25,870
Cash and Cash Equivalents, September 1, 2004	2,437,071	255,512	315,046	182,628	413,138
Restatements	22,227	6,826			
Cash and Cash Equivalents, September 1, 2004, as Restated	2,459,298	262,338	315,046	182,628	413,138
Cash and Cash Equivalents, August 31, 2005	$ 2,742,490	$ 237,520	$ 314,783	$ 191,106	$ 439,008

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ 50,781	$ 57,276	$	$	$ 20,839	$ 35,422	$ 3,379,613
168,671		40,382	16,673	1,447		2,211,700
76,762	13,563	24,536	45,750		27,543	3,431,401
						3,986
9,176			62,873	28		202,536
32,001		19,077	7,054	3,982		720,350
1,861	880	4,079	3,748	950	313	644,511
(107,656)	(23,086)	(32,303)	(35,122)	(17,694)	(44,070)	(4,271,574)
(321,917)	(75,556)	(79,803)	(82,444)	(35,594)	(79,333)	(8,685,336)
(10,687)	(14,896)	(11,866)	(33,728)	(21)		(199,349)
(33,977)	(4,122)	(2)	(27,514)		(654)	(558,979)
(134,985)	(45,941)	(35,900)	(42,710)	(26,063)	(60,779)	(3,121,141)
170,057	57,710	50,139	53,662	22,252	71,715	3,517,249
7,983		2,400	450	2,987	12	377,691
6,248			1,938			167,140
2,416			215	6		160,778
				6,002		32,836
1,074	11,472	757	8,862	23	277	109,603
				410		410
(199)						(5,021)
(14)			(1)			(15)
(12)						(12)
(2,247)		(227)	(40)	(26)		(207,604)
(7,324)	(1,118)		(38)		(1,732)	(130,469)
177,982	68,064	53,069	65,048	31,654	70,272	4,022,586
			31			24,354
27,195	11,820	22,693	31,328	11,185		1,546,840
						19,159
				1,128		1,128
19,002		6,633		3,008		29,749
		146	7,191	60		187,665
						71,500
(54,258)	(27,134)	(18,790)	(32,658)	(15,287)	(4,436)	(1,981,729)
(8,699)	(8,510)	(3,857)	(6,825)	(1,094)	(2,481)	(953,172)
	(145)					(377)
(9,684)		(835)	(6,081)	(420)	(638)	(226,628)
(7)	(3,267)		(1,318)		(1,528)	(22,226)
(26,451)	(27,236)	5,990	(8,332)	(1,420)	(9,083)	(1,303,737)
47,912		9,918	38,056	56,148	1,363	22,761,960
8,226		1,275	152	976	493	958,977
(54,602)	(32,718)	(16,779)	(38,114)	(61,258)	(2,011)	(23,013,970)
1,536	(32,718)	(5,586)	94	(4,134)	(155)	706,967
18,082	(37,831)	17,573	14,100	37	255	304,675
148,022	50,639	39,381	18,769	3,262	23,465	3,886,933
(3)						29,050
148,019	50,639	39,381	18,769	3,262	23,465	3,915,983
$ 166,101	$ 12,808	$ 56,954	$ 32,869	$ 3,299	$ 23,720	$ 4,220,658

Concluded on the following page

State of Texas
Schedule of Cash Flows
Colleges and Universities – Major Enterprise Fund (concluded)
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	University of Texas System	Texas A & M University System	Texas Tech University System	University of Houston System	Texas State University System
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES					
Operating (Loss)	$ (2,134,096)	$ (979,559)	$ (283,976)	$ (286,775)	$ (260,912)
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities:					
Depreciation and Amortization	477,825	114,829	42,553	29,893	28,458
Bad Debt Expense	187,254	1,353	(168)	2,533	346
Operating Income (Loss) and Cash Flow Categories Classification Differences	116,573	73,647	6,251	13,185	18,679
Changes in Assets and Liabilities:					
(Increase) Decrease in Receivables	(286,074)	(17,728)	(1,298)	9,132	(2,244)
(Increase) Decrease in Due From Other Funds		(7,128)			(726)
(Increase) Decrease in Inventories	(27,134)	(233)	(583)	17	420
(Increase) Decrease in Notes Receivable			4,022		(169)
(Increase) Decrease in Loans and Contracts	178	277		(496)	(748)
(Increase) Decrease in Other Assets	(5,397)	(14)	(24)	49,663	1,281
(Increase) Decrease in Prepaid Expenses		(565)	(5,388)	(6,088)	(5,010)
(Increase) Decrease in State Appropriations					
Increase (Decrease) in Payables	171,622	16,417	(8,491)	(16,586)	9,437
Increase (Decrease) in Deposits	9,381	(766)			46
Increase (Decrease) in Due To Other Funds		7,183			4,825
Increase (Decrease) in Deferred Revenue	89,730	29,389	18,342	4,309	14,947
Increase (Decrease) in Compensated Absence Liability	31,879	2,913	2,037	1,114	2,739
Increase (Decrease) in Benefits Payable		1,925	(5,570)	(1,111)	
Increase (Decrease) in Other Liabilities	(25,118)	173	136	1,570	(3,071)
Total Adjustments	740,719	221,672	51,819	87,135	69,210
Net Cash Provided by Operating Activities	$ (1,393,377)	$ (757,887)	$ (232,157)	$ (199,640)	$ (191,702)
NON CASH TRANSACTIONS					
Net Change in Fair Value of Investments	$ (1,338,188)	$ (129,322)	$ (44,372)	$ (8,390)	$ (5,124)
Donation of Capital Assets	$ (14,632)	$ (1,091)			
Borrowing Under Capital Lease Purchase	$ (2,208)				
Other	$ (6,029)	$ (492,280)		$ (4,575)	$ 9,708

University of North Texas System	Texas Woman's University	Stephen F. Austin State University	Texas Southern University	Midwestern State University	Texas State Technical College	Totals
$ (168,014)	$ (56,473)	$ (53,355)	$ (58,028)	$ (31,989)	$ (73,741)	$ (4,386,918)
19,515	8,168	4,058	9,163	4,140	5,718	744,320
864	583	(5)	1,392	143		194,295
5,877	1,779	4,065	2,399	412	7,085	249,952
(15)	(24,840)	8,042	1,050	(187)	(852)	(315,014)
	7	31	(132)		(620)	(8,568)
60	579	18	(5)	3	509	(26,349)
		(6,572)				(2,719)
(2,053)		(95)		7		(2,930)
544	(4,383)				20	41,690
(3,186)	(924)	(1,919)	(1,193)	(514)		(24,787)
		(3,227)				(3,227)
(13,124)	3,397	4,478	2,033	372	73	169,628
			(2,626)			6,035
(65)	15					11,958
24,541	22,183	7,279	(337)	1,531	1,680	213,594
	484	17	469			41,652
					(34)	(4,790)
71	3,484	1,285	3,105	19	(617)	(18,963)
33,029	10,532	17,455	15,318	5,926	12,962	1,265,777
$ (134,985)	$ (45,941)	$ (35,900)	$ (42,710)	$ (26,063)	$ (60,779)	$ (3,121,141)
$ (2,972)	$ 820	$ 234	$ (1,121)	$ 152		$ (1,528,283)
				$ (3,840)	$ (207)	$ (19,770)
						$ (2,208)
$ 299				$ 371	$ (139)	$ (492,645)

Fiduciary Funds

2005

Pension and Other Employee Benefit Trust Funds

The **Teacher Retirement System Trust Account** is for the accumulation of resources for pension benefit payments for qualified employees of public education in Texas.

The **S.E.R.S. Trust Account** is for the accumulation of resources for pension benefit payments to qualified state employees or beneficiaries.

The **Law Enforcement and Custodial Officer Supplement Retirement Fund** provides supplemental retirement and death benefits for members of the Employees Retirement System of Texas who have completed 20 or more years of service or have become occupationally disabled or died while serving as commissioned law enforcement officers of a state agency.

The **Judicial Retirement System – Plan Two Trust Fund** accounts for receipt of monies for retirement and death benefits for certain state-paid judges and judicial officers.

The **Fire Fighters' Relief and Retirement Fund** accounts for the accumulation of resources for pension, death, and disability benefits for fire fighters who serve without monetary reward.

The **Judicial Retirement System – Plan One Fund** accounts for appropriations received from the state's General Revenue Fund for annuity and refund payments to eligible judicial employees.

The **Retired School Employees Group Insurance Trust** receives contributions and other funds authorized to be deposited in the fund to pay insurance premiums, to reimburse for claims paid by a non-state entity, and to pay administrative expenses. The Teacher Retirement System of Texas, as trustee, administers the fund for public school retirees and their dependents. The public school entities are not considered part of the reporting entity for the State of Texas.

The **Deferred Compensation Trust Fund** receives employee deferrals in accordance with Internal Revenue Code 457, appropriations by the state for the administration of the deferred compensation plan, trust income, and fees. The State of Texas is the only employer participating in the plan.

The **State Employee Cafeteria Plan Trust Fund** receives salary reduction payments and makes disbursements for benefits included in a cafeteria plan, other than Employees Uniform Group Insurance Program coverages. The Fund also receives appropriations by the state for the administration of the cafeteria plan.

The **TexaSaver Administrative Trust Fund** receives deferrals, purchases qualified investments, and pays expenses associated with administration of the deferred compensation plan.

State of Texas
Combining Statement of Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds
August 31, 2005 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Fire Fighters' Relief and Retirement Fund
ASSETS					
Cash and Cash Equivalents	$ 1,216,944	$ 29,061	$ 1,038	$ 520	$ 244
Securities Lending Collateral	10,413,778	4,247,974	142,332	33,085	
Investments:					
U.S. Government	14,205,876	4,963,764	166,104	38,905	
Corporate Equity	49,597,393	8,748,434	292,751	68,568	19,430
Corporate Obligations	8,598,393	2,667,315	89,257	20,906	
Repurchase Agreements		96,043	3,214	753	
Foreign Securities	15,932,294	3,953,301	132,291	30,985	
Other	4,549,973	80,832	2,705	634	20,127
Receivables:					
Interest and Dividends	326,168	2,913	97	23	28
Investment Trades	1,879,940	44,035	1,475	343	
Accounts	162,232	43,688		933	665
Other	370				
Due From Other Funds	543	5,304			
Properties, at Cost, net of Accumulated Depreciation	31,162	6,362			
Other Assets					
Total Assets	106,915,066	24,889,026	831,264	195,655	40,494
LIABILITIES					
Payables:					
Accounts	447,558	16,404	215	35	205
Payroll	127	1,672			20
Investment Trades	2,172,136	172,268	5,772	1,341	
Deferred Revenue	38,537			57	115
Due To Other Funds	132,740	544	245	54	
Employees' Compensable Leave	2,374	1,464			23
Obligations/Securities Lending	10,413,778	4,247,974	142,332	33,085	
Total Liabilities	13,207,250	4,440,326	148,564	34,572	363
NET ASSETS					
Net Assets Held in Trust for Pension Benefits	$ 93,707,816	$ 20,448,700	$ 682,700	$ 161,083	$ 40,131

* The Retired School Employees Group Insurance Trust was previously reported as a Private-Purpose Trust Fund.

Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust*	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Totals
$	$ 423,871	$ 2,402	$ 3,668	$ 931	$ 1,678,679
					14,837,169
					19,374,649
		133,924			58,860,500
					11,375,871
					100,010
					20,048,871
		157,592			4,811,863
		2	11	2	329,244
					1,925,793
	39,340	7	4,053		250,918
					370
231	9,043		3		15,124
					37,524
			480		480
231	472,254	293,927	8,215	933	133,647,065
231	19,379	331	6,160		490,518
	114,940				116,759
					2,351,517
		2	2		38,713
	10,734	39	27	24	144,407
	44				3,905
					14,837,169
231	145,097	372	6,189	24	17,982,988
$ 0	$ 327,157	$ 293,555	$ 2,026	$ 909	$115,664,077

State of Texas
Combining Statement of Changes in Fiduciary Net Assets – Pension and Other Employee Benefit Trust Funds
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Teacher Retirement System Trust Account	S.E.R.S. Trust Account	Law Enforcement and Custodial Officer Supplement Retirement Fund	Judicial Retirement System - Plan Two Trust Fund	Fire Fighters' Relief and Retirement Fund
ADDITIONS					
Contributions:					
Member Contributions	$ 1,728,355	$ 314,253	$	$ 2,996	$ 1,931
State Contributions		276,470		8,365	
Transfer In of Contributions	1,258,534				
Other Contributions	221,159				131
Total Contributions	3,208,048	590,723	0	11,361	2,062
Investment Income:					
From Investing Activities:					
Net Appreciation in Fair Value of Investments	9,607,206	1,718,195	57,872	12,721	2,431
Interest and Investment Income	2,329,973	620,216	20,855	4,657	2,692
Total Investing Income	11,937,179	2,338,411	78,727	17,378	5,123
Less Investing Activities Expense	17,395	17,075	611	104	209
Net Income from Investing Activities	11,919,784	2,321,336	78,116	17,274	4,914
From Securities Lending Activities:					
Securities Lending Income	317,892	94,522	3,179	714	
Less Securities Lending Expense:					
Borrower Rebates	279,035	82,292	2,767	622	
Management Fees	5,816	2,477	83	19	
Net Income from Securities Lending	33,041	9,753	329	73	0
Total Net Investment Income	11,952,825	2,331,089	78,445	17,347	4,914
Other Additions:					
Other Revenue		187			
Transfer In	6,252	41,200			
Total Other Additions	6,252	41,387	0	0	0
Total Additions	15,167,125	2,963,199	78,445	28,708	6,976
DEDUCTIONS					
Benefits	5,352,566	1,202,571	29,036	3,318	2,222
Refunds of Contributions	243,382	89,760		106	
Transfer Out	41,200	6,687			
Transfer Out of Contributions					
Intergovernmental Payments					
Administrative Expenses	25,143	13,219	521	401	653
Total Deductions	5,662,291	1,312,237	29,557	3,825	2,875
INCREASE (DECREASE) IN NET ASSETS	9,504,834	1,650,962	48,888	24,883	4,101
NET ASSETS					
Net Assets, September 1, 2004	84,202,982	18,797,738	633,812	136,200	36,030
Restatements					
Net Assets, September 1, 2004, as Restated	84,202,982	18,797,738	633,812	136,200	36,030
Net Assets, August 31, 2005	$ 93,707,816	$ 20,448,700	$ 682,700	$ 161,083	$ 40,131

* The Retired School Employees Group Insurance Trust was previously reported as a Private-Purpose Trust Fund.

Judicial Retirement System - Plan One Fund	Retired School Employees Group Insurance Trust*	Deferred Compensation Trust Fund	State Employee Cafeteria Plan Trust Fund	TexaSaver Administrative Trust Fund	Totals
$	$ 504,893	$ 83,085	$ 52,744	$	$ 2,688,257
					284,835
	275,140				1,533,674
		5	681	13	221,989
0	780,033	83,090	53,425	13	4,728,755
		15,954			11,414,379
	11,259	6,518	40	29	2,996,239
0	11,259	22,472	40	29	14,410,618
					35,394
0	11,259	22,472	40	29	14,375,224
					416,307
					364,716
					8,395
0	0	0	0	0	43,196
0	11,259	22,472	40	29	14,418,420
	41	115	75	53	471
22,417	526,633		334	100	596,936
22,417	526,674	115	409	153	597,407
22,417	1,317,966	105,677	53,874	195	19,744,582
22,283	691,821	68,010	52,337		7,424,164
14					333,262
					47,887
	266,570				266,570
	268,647				268,647
120	2,056	418	1,572	253	44,356
22,417	1,229,094	68,428	53,909	253	8,384,886
0	88,872	37,249	(35)	(58)	11,359,696
		256,306	2,061	967	104,066,096
	238,285				238,285
0	238,285	256,306	2,061	967	104,304,381
$ 0	$ 327,157	$ 293,555	$ 2,026	$ 909	$ 115,664,077

External Investment Trust Funds

The **Texas Government Investment Pool (TexPool) Trust Fund** is a local government investment pool administered by the Texas Treasury Safekeeping Trust Company - Comptroller's office. The investor base consists of cities, counties, school districts, institutions of higher education, special districts, and other public entities of Texas.

The **Texas Treasury Safekeeping Trust Company Municipal Utility District Fund** is an investment pool available for municipal utility districts and is administered by the Texas Treasury Safekeeping Trust Company - Comptroller's office. The function of this fund is to invest moneys on behalf of these legally separate entities.

State of Texas
Combining Statement of Fiduciary Net Assets – External Investment Trust Funds

August 31, 2005 (Amounts in Thousands)

	Texas Government Investment Pool (TexPool) Trust Fund	Texas Treasury Safekeeping Trust Company Municipal Utility District Fund	Totals
ASSETS			
Cash and Cash Equivalents	$ 15	$	$ 15
Investments:			
U.S. Government	2,749,951		2,749,951
Repurchase Agreements	8,939,851	735	8,940,586
Other	33,375		33,375
Interest and Dividends Receivable	13,122		13,122
Total Assets	11,736,314	735	11,737,049
LIABILITIES			
Payables:			
Accounts	18,976		18,976
Investment Trades	34,877		34,877
Total Liabilities	53,853	0	53,853
NET ASSETS			
Net Assets Held in Trust for Pool Participants	$11,682,461	$ 735	$11,683,196

State of Texas
Combining Statement of Changes in Fiduciary Net Assets – External Investment Trust Funds
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Texas Government Investment Pool (TexPool) Trust Fund	Texas Treasury Safekeeping Trust Company Municipal Utility District Fund	Totals
ADDITIONS			
Investment Income:			
From Investing Activities:			
Interest and Investment Income	$ 330,579	$ 18	$ 330,597
Total Investing Income	330,579	18	330,597
Less Investing Activities Expense	6,441		6,441
Net Income from Investing Activities	324,138	18	324,156
Capital Share and Individual Account Transactions:			
Net Increase (Decrease) in Participant Investments	1,136,556	(8)	1,136,548
INCREASE IN NET ASSETS	1,460,694	10	1,460,704
NET ASSETS			
Net Assets, September 1, 2004	10,224,744	725	10,225,469
Restatements	(2,977)		(2,977)
Net Assets, September 1, 2004, as Restated	10,221,767	725	10,222,492
Net Assets, August 31, 2005	$11,682,461	$ 735	$11,683,196

Private-Purpose Trust Funds

The **Tobacco Settlement Permanent Trust (Political Subdivisions)** holds the portion of the tobacco settlement money designated for the exclusive benefit of political subdivisions.

The **Texas Insurance Companies Assets Account – Reserve and Custodial Fund** holds assets in trust for claims associated with insurance company liquidations. Most balances are normally held outside the Treasury. The Department of Insurance administers the fund.

The **Catastrophe Reserve Trust Fund** is a state fund that was created to provide relief to insurance companies within the state in the event of certain catastrophic losses. Certain property insurers authorized to transact property insurance in Texas make payments to the fund.

The **Inmate Trust and Employee Service Option Fund** accounts for offender commissary and medical accounts along with the Texas Department of Criminal Justice employee commissary, laundry, and/or barber contributions.

The **Texas Tomorrow Trust Fund** receives money contributed by college saving plan account holders, money acquired from private sources, and income from investment of deposits. The fund may be used only to pay costs of program administration and operations, make payments to institutions of higher education or private or independent institutions, and make refunds to college saving plan account holders.

State of Texas
Combining Statement of Fiduciary Net Assets – Private-Purpose Trust Funds

August 31, 2005 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Retired School Employees Group Insurance Trust*	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund**	Texas Tomorrow Trust Fund**	Other Private-Purpose Trust Funds**	Totals
ASSETS								
Cash and Cash Equivalents	$ 9	$	$ 127,118	$ 342,625	$ 2,729	$ 53	$ 18,299	$ 490,833
Restricted Cash and Cash Equivalents							291	291
Securities Lending Collateral	89,342							89,342
Investments:								
U.S. Government	118,368				15,878		2,226	136,472
Corporate Equity	314,823						13,704	328,527
Corporate Obligations	69,633						4,334	73,967
Repurchase Agreements							1,554	1,554
Foreign Securities	5,436							5,436
Other	1,539,910					131,513	10,187	1,681,610
Receivables:								
Federal							109	109
Interest and Dividends	4,742					4	46	4,792
Investment Trades	3,370					192		3,562
Accounts							145	145
Other							1,342	1,342
Properties, at Cost, Net of Accumulated Depreciation							1,113	1,113
Other Assets			89,317				1	89,318
Total Assets	2,145,633	0	216,435	342,625	18,607	131,762	53,351	2,908,413
LIABILITIES								
Payables:								
Accounts	568				953	6	1,478	3,005
Investment Trades	5,528					195		5,723
Deferred Revenue						47		47
Obligations/Securities Lending	89,342							89,342
Funds Held for Others			89,317					89,317
Total Liabilities	95,438	0	89,317	0	953	248	1,478	187,434
NET ASSETS								
Net Assets Held in Trust for Individuals, Organizations, and Other Governments	2,050,195		127,118	342,625	17,654	131,514	51,873	2,720,979
Total Net Assets	$2,050,195	$ 0	$ 127,118	$ 342,625	$ 17,654	$ 131,514	$ 51,873	$2,720,979

* The Retired School Employees Group Insurance Trust Fund has activity on the Combining Statement of Changes in Fiduciary Net Assets - Private-Purpose Trust Funds.

** The Inmate Trust and Employee Service Option Fund and the Texas Tomorrow Trust Fund were previously reported within the Other Private-Purpose Trust Funds column.

State of Texas
Combining Statement of Changes in Fiduciary Net Assets – Private-Purpose Trust Funds

For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)

	Tobacco Settlement Permanent Trust (Political Subdivisions)	Retired School Employees Group Insurance Trust*	Texas Insurance Companies Assets Account - Reserve and Custodial Fund	Catastrophe Reserve Trust Fund	Inmate Trust and Employee Service Option Fund**	Texas Tomorrow Trust Fund**	Other Private-Purpose Trust Funds**	Totals
ADDITIONS								
Investment Income:								
From Investing Activities:								
Net Appreciation in Fair Value of Investments	$ 236,635	$	$	$	$	$ 8,610	$ 1,464	$ 246,709
Interest and Investment Income	44,464		3,111	8,312		1,729	2,019	59,635
Total Investing Income	281,099	0	3,111	8,312	0	10,339	3,483	306,344
Less Investing Activities Expense						449		449
Net Income from Investing Activities	281,099	0	3,111	8,312	0	9,890	3,483	305,895
From Securities Lending Activities:								
Securities Lending Income	3,415							3,415
Less Securities Lending Expense:								
Borrower Rebates	3,204							3,204
Net Income from Securities Lending	211	0	0	0	0	0	0	211
Total Net Investment Income	281,310	0	3,111	8,312	0	9,890	3,483	306,106
Other Additions:								
Federal Revenue							1,413	1,413
Settlement of Claims							4,304	4,304
Other Revenue			44,034	28,558	101,665	47,310	13,371	234,938
Transfer In			20					20
Total Other Additions	0	0	44,054	28,558	101,665	47,310	19,088	240,675
Total Additions	281,310	0	47,165	36,870	101,665	57,200	22,571	546,781
DEDUCTIONS								
Benefits						6,920	536	7,456
Transfer Out				1,000			117	1,117
Intergovernmental Payments	50,283						2,561	52,844
Administrative Expenses	3,737		30,436	69	100,562	891	7,694	143,389
Total Deductions	54,020	0	30,436	1,069	100,562	7,811	10,908	204,806
INCREASE IN NET ASSETS	227,290	0	16,729	35,801	1,103	49,389	11,663	341,975
NET ASSETS								
Net Assets, September 1, 2004	1,822,905	238,285	110,389	306,824	16,551	82,125	39,906	2,616,985
Restatements		(238,285)					304	(237,981)
Net Assets, September 1, 2004, as Restated	1,822,905	0	110,389	306,824	16,551	82,125	40,210	2,379,004
Net Assets, August 31, 2005	$2,050,195	$ 0	$127,118	$342,625	$ 17,654	$131,514	$51,873	$2,720,979

* The Retired School Employees Group Insurance Trust Fund changed in fiscal year 2005 from a Private-Purpose Trust Fund to a Pension Trust Fund. This Trust Fund is only being presented here to report a beginning balance and a restatement of that beginning balance. The Trust Fund has been restated as a Pension Trust Fund in the Combining Statement of Changes in Fiduciary Net Assets - Pension and Other Employee Benefit Trust Funds.

** The Inmate Trust and Employee Service Option Fund and the Texas Tomorrow Trust Fund were previously reported within the Other Private-Purpose Trust Funds column.

Agency Funds

The **Texas Public Finance Authority Bond Escrow Account** is used to hold funds for various defeased or refunded bonds.

The **Life, Health, Accident, and Casualty Insurance Companies Trust Account** holds cash or securities deposited with the state by insurance companies as required by law.

The **Texas Workers' Compensation Self Insurance Fund** is used to deposit certified self-insurer security deposits. These deposits may be applied to the self-insurer's incurred liabilities for compensation.

The **City, County, Metropolitan Transit Authority (MTA), and Special Purpose District (SPD) Sales Tax Trust Account** is used to record the receipt of local sales and use tax collected by the Comptroller for each city, county, metropolitan transit authority, and special purpose district authorizing the collection.

State of Texas
Combining Statement of Fiduciary Net Assets – Agency Funds
August 31, 2005 (Amounts in Thousands)

	Texas Public Finance Authority Bond Escrow Account	Life, Health, Accident, and Casualty Insurance Companies Trust Account	Texas Workers' Compensation Self Insurance Fund	City, County, MTA, and SPD Sales Tax Trust Account	Other Agency Funds	Totals
ASSETS						
Cash and Cash Equivalents	$ 40	$ 107	$ 13,355	$ 578,392	$ 87,713	$ 679,607
Investments:						
U.S. Government	564,705				132	564,837
Corporate Equity					206,234	206,234
Corporate Obligations					19	19
Repurchase Agreements					14,518	14,518
Other					22,126	22,126
Receivables:						
Other Intergovernmental					1,763	1,763
Interest and Dividends	6,551				2	6,553
Accounts					16,443	16,443
Other					38	38
Due From Other Funds					46	46
Other Assets		799,227	705,633		129,762	1,634,622
Total Assets	$ 571,296	$ 799,334	$ 718,988	$ 578,392	$ 478,796	$3,146,806
LIABILITIES						
Payables:						
Accounts					11,555	11,555
Other Intergovernmental				578,392	2,458	580,850
Due To Other Funds					359	359
Interfund Payable					29	29
Funds Held for Others	571,296	799,334	718,988		464,395	2,554,013
Total Liabilities	$ 571,296	$ 799,334	$ 718,988	$ 578,392	$ 478,796	$3,146,806

State of Texas
Combining Statement of Changes in Assets and Liabilities – Agency Funds
August 31, 2005 (Amounts in Thousands)

	Beginning Balance September 1, 2004	Additions	Deductions	Ending Balance August 31, 2005
Texas Public Finance Authority Bond Escrow Account				
ASSETS				
Cash and Cash Equivalents	$ 124	$	$ 84	$ 40
Investments	956,970	564,705	956,970	564,705
Receivables:				
Interest and Dividends	8,807	91	2,347	6,551
Total Assets	$ 965,901	$ 564,796	$ 959,401	$ 571,296
LIABILITIES				
Funds Held for Others	$ 965,901	$ 91	$ 394,696	$ 571,296
Total Liabilities	$ 965,901	$ 91	$ 394,696	$ 571,296
Life, Health, Accident, and Casualty Insurance Companies Trust Account				
ASSETS				
Cash and Cash Equivalents	$ 312	$ 332	$ 537	$ 107
Other Assets	839,361	799,227	839,361	799,227
Total Assets	$ 839,673	$ 799,559	$ 839,898	$ 799,334
LIABILITIES				
Funds Held for Others	$ 839,673	$ 799,559	$ 839,898	$ 799,334
Total Liabilities	$ 839,673	$ 799,559	$ 839,898	$ 799,334
Texas Workers' Compensation Self Insurance Fund				
ASSETS				
Cash and Cash Equivalents	$ 22,493	$ 22,983	$ 32,121	$ 13,355
Receivables:				
Interest and Dividends	27		27	
Accounts		27	27	
Other Assets	678,569	79,830	52,766	705,633
Total Assets	$ 701,089	$ 102,840	$ 84,941	$ 718,988
LIABILITIES				
Accounts Payable	$	$ 9,671	$ 9,671	$
Funds Held for Others	701,089	75,748	57,849	718,988
Total Liabilities	$ 701,089	$ 85,419	$ 67,520	$ 718,988
City, County, MTA, and SPD Sales Tax Trust Account				
ASSETS				
Cash and Cash Equivalents	$ 549,082	$ 5,438,412	$ 5,409,102	$ 578,392
Total Assets	$ 549,082	$ 5,438,412	$ 5,409,102	$ 578,392
LIABILITIES				
Payables:				
Accounts	$	$ 4,589,424	$ 4,589,424	$
Other Intergovernmental	549,082	578,400	549,090	578,392
Funds Held for Others		5,987,464	5,987,464	
Total Liabilities	$ 549,082	$ 11,155,288	$ 11,125,978	$ 578,392

Concluded on the following page

State of Texas
Combining Statement of Changes in Assets and Liabilities – Agency Funds (concluded)
August 31, 2005 (Amounts in Thousands)

	Beginning Balance September 1, 2004	Additions	Deductions	Ending Balance August 31, 2005
Other Agency Funds				
ASSETS				
Cash and Cash Equivalents	$ 74,172	$ 6,231,516	$ 6,217,975	$ 87,713
Investments	172,440	233,683	163,094	243,029
Receivables:				
Other Intergovernmental	1,263	500		1,763
Interest and Dividends	3	13	14	2
Accounts	79,425	115,186	178,168	16,443
Other	43		5	38
Interfund Receivable	107	11,701	11,808	
Due From Other Funds		2,632	2,586	46
Other Assets	73,542	92,797	36,577	129,762
Total Assets	$ 400,995	$ 6,688,028	$ 6,610,227	$ 478,796
LIABILITIES				
Payables:				
Accounts	$ 10,514	$ 1,733,470	$ 1,732,429	$ 11,555
Other Intergovernmental	2,395	63		2,458
Due To Other Funds	5,310	1,076	6,027	359
Deferred Revenues		779	779	
Interfund Payable		13,694	13,665	29
Funds Held for Others	382,776	6,534,750	6,453,131	464,395
Total Liabilities	$ 400,995	$ 8,283,832	$ 8,206,031	$ 478,796
Totals – All Agency Funds				
ASSETS				
Cash and Cash Equivalents	$ 646,183	$ 11,693,243	$ 11,659,819	$ 679,607
Investments	1,129,410	798,388	1,120,064	807,734
Receivables:				
Other Intergovernmental	1,263	500		1,763
Interest and Dividends	8,837	104	2,388	6,553
Accounts	79,425	115,213	178,195	16,443
Other	43		5	38
Due From Other Funds		2,632	2,586	46
Interfund Receivable	107	11,701	11,808	
Other Assets	1,591,472	971,854	928,704	1,634,622
Total Assets	$ 3,456,740	$ 13,593,635	$ 13,903,569	$ 3,146,806
LIABILITIES				
Payables:				
Accounts	$ 10,514	$ 6,332,565	$ 6,331,524	$ 11,555
Other Intergovernmental	551,477	578,463	549,090	580,850
Due To Other Funds	5,310	1,076	6,027	359
Deferred Revenues		779	779	
Interfund Payable		13,694	13,665	29
Funds Held for Others	2,889,439	13,397,612	13,733,038	2,554,013
Total Liabilities	$ 3,456,740	$ 20,324,189	$ 20,634,123	$ 3,146,806

Discretely Presented Component Units

2005

Discretely Presented Component Units

There are fourteen discretely presented component units that are considered material to the state. Details regarding each component unit are included in Note 19. A Statement of Net Assets and a Statement of Activities has been prepared to report the breakdown of the following discretely presented component units.

State Bar of Texas
Texas Agricultural Finance Authority
Texas On-Site Wastewater Treatment Research Council
Texas Appraiser Licensing and Certification Board
Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.
Texas Guaranteed Student Loan Corporation
Texas Boll Weevil Eradication Foundation, Inc.
Texas Water Resources Finance Authority
Texas Small Business Industrial Development Corporation
Texas Economic Development Corporation
Surplus Lines Stamping Office of Texas
Texas Health Reinsurance System
Texas Health Insurance Risk Pool
Texas State Affordable Housing Corporation

State of Texas
Combining Statement of Net Assets – Component Units
August 31, 2005 (Amounts in Thousands)*

	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.	Texas Guaranteed Student Loan Corporation
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 5,134	$ 16,722	$	$	$ 3	$ 7,172
Short Term Investments	20,608					
Restricted:						
Cash and Cash Equivalents						
Short Term Investments						
Loans and Contracts						
Receivables:						
Federal						14,396
Other Intergovernmental Accounts	278					
Interest and Dividends		218				4,460
Other	1,104					
Due From Primary Government			251	35		
Inventories	448			4		
Prepaid Items	920	61				
Loans and Contracts		11,667				
Other Current Assets		6				1,064
Total Current Assets	28,492	28,674	251	39	3	27,092
Non-Current Assets:						
Restricted:						
Cash and Cash Equivalents						
Investments						
Loans and Contracts						
Loans and Contracts						
Investments						453,410
Capital Assets:						
Non-Depreciable	1,181	131				3,315
Depreciable	13,693			9		44,107
Accumulated Depreciation	(10,894)			(9)		(9,548)
Other Non-Current Assets						1,950
Total Non-Current Assets	3,980	131	0	0	0	493,234
Total Assets	32,472	28,805	251	39	3	520,326

Continued on the following page

State of Texas
Combining Statement of Net Assets – Component Units (continued)
August 31, 2005 (Amounts in Thousands)*

	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.	Texas Guaranteed Student Loan Corporation
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	$ 2,817	$ 3	$ 2	$ 8	$	$ 7,130
Payroll				27		
Federal						14,544
Interest						
Due To Primary Government			10			
Deferred Revenue	5,013					
Capital Lease Obligations	168					
Employees' Compensable Leave	779	4		12		1,444
Notes and Loans Payable		29,938				1,476
Revenue Bonds Payable						
Other Current Liabilities	60					
Total Current Liabilities	8,837	29,945	12	47	0	24,594
Non-Current Liabilities:						
Capital Lease Obligations	88					
Employees' Compensable Leave	249	5		7		587
Notes and Loans Payable						11,164
Liabilities Payable From Restricted Assets						210,566
Revenue Bonds Payable						
Other Non-Current Liabilities	1					240
Total Non-Current Liabilities	338	5	0	7	0	222,557
Total Liabilities	9,175	29,950	12	54	0	247,151
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	32					25,234
Restricted for:						
Education						22,179
Other						
Unrestricted	23,265	(1,145)	239	(15)	3	225,762
Total Net Assets	$ 23,297	$ (1,145)	$ 239	$ (15)	$ 3	$ 273,175

Continued on the following page

* Amounts at August 31, 2005, unless otherwise indicated in Note 19.

State of Texas
Combining Statement of Net Assets – Component Units (continued)
August 31, 2005 (Amounts in Thousands)*

	Texas Boll Weevil Eradication Foundation, Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	U.T. Southwestern Moncrief Cancer Center**	Surplus Lines Stamping Office of Texas
ASSETS						
Current Assets:						
Cash and Cash Equivalents	$ 503	$ 205	$ 79,798	$	$	$ 7,616
Short Term Investments	53,217	17,241		641		
Restricted:						
Cash and Cash Equivalents						
Short Term Investments						
Loans and Contracts						
Receivables:						
Federal	13,979					
Other Intergovernmental	982					
Accounts	9,106					359
Interest and Dividends		928	215			
Other	119					35
Due From Primary Government						
Inventories	258					
Prepaid Items	487					
Loans and Contracts		5,498				
Other Current Assets						
Total Current Assets	78,651	23,872	80,013	641	0	8,010
Non-Current Assets:						
Restricted:						
Cash and Cash Equivalents						
Investments						
Loans and Contracts						
Loans and Contracts		38,053	19,912			
Investments		22,086				
Capital Assets:						
Non-Depreciable						
Depreciable	28,201					3,398
Accumulated Depreciation	(20,363)					(2,026)
Other Non-Current Assets	4,486					19
Total Non-Current Assets	12,324	60,139	19,912	0	0	1,391
Total Assets	90,975	84,011	99,925	641	0	9,401

Continued on the following page

State of Texas
Combining Statement of Net Assets – Component Units (continued)
August 31, 2005 (Amounts in Thousands)*

	Texas Boll Weevil Eradication Foundation, Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	U.T. Southwestern Moncrief Cancer Center**	Surplus Lines Stamping Office of Texas
LIABILITIES						
Current Liabilities:						
Payables:						
Accounts	$ 840	$	$ 48	$	$	$ 20
Payroll						
Federal						
Interest		76	237			
Due To Primary Government		15				
Deferred Revenue						
Capital Lease Obligations						
Employees' Compensable Leave	867					
Notes and Loans Payable	19,824					
Revenue Bonds Payable		5,840				
Other Current Liabilities	2,654					218
Total Current Liabilities	24,185	5,931	285	0	0	238
Non-Current Liabilities:						
Capital Lease Obligations						
Employees' Compensable Leave	337					
Notes and Loans Payable	131,318					
Liabilities Payable From Restricted Assets						
Revenue Bonds Payable		21,315	99,335			
Other Non-Current Liabilities						
Total Non-Current Liabilities	131,655	21,315	99,335	0	0	0
Total Liabilities	155,840	27,246	99,620	0	0	238
NET ASSETS						
Invested in Capital Assets, Net of Related Debt	305					1,372
Restricted for:						
Education						
Other						
Unrestricted	(65,170)	56,765	305	641		7,791
Total Net Assets	$ (64,865)	$ 56,765	$ 305	$ 641	$ 0	$ 9,163

Continued on the following page

* Amounts at August 31, 2005, unless otherwise indicated in Note 19.

** This fund has activity on the Combining Statement of Activities - Component Units.

State of Texas
Combining Statement of Net Assets – Component Units (continued)
August 31, 2005 (Amounts in Thousands)*

	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Totals
ASSETS				
Current Assets:				
Cash and Cash Equivalents	$ 1,011	$ 3,210	$ 2,410	$ 123,784
Short Term Investments		37,290	2,947	131,944
Restricted:				
Cash and Cash Equivalents			818	818
Short Term Investments			42,436	42,436
Loans and Contracts			66	66
Receivables:				
Federal				28,375
Other Intergovernmental				982
Accounts		3,854	748	14,345
Interest and Dividends			199	6,020
Other	4,119			5,377
Due From Primary Government				286
Inventories				710
Prepaid Items			24	1,492
Loans and Contracts				17,165
Other Current Assets				1,070
Total Current Assets	5,130	44,354	49,648	374,870
Non-Current Assets:				
Restricted:				
Cash and Cash Equivalents			154	154
Investments			39,775	39,775
Loans and Contracts			3,620	3,620
Loans and Contracts				57,965
Investments				475,496
Capital Assets:				
Non-Depreciable				4,627
Depreciable		32	199	89,639
Accumulated Depreciation		(15)	(167)	(43,022)
Other Non-Current Assets		5	2,459	8,919
Total Non-Current Assets	0	22	46,040	637,173
Total Assets	5,130	44,376	95,688	1,012,043

Concluded on the following page

State of Texas
Combining Statement of Net Assets – Component Units (concluded)
August 31, 2005 (Amounts in Thousands)*

	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Totals
LIABILITIES				
Current Liabilities:				
Payables:				
Accounts	$ 25	$ 1,173	$ 61	$ 12,127
Payroll				27
Federal				14,544
Interest			510	823
Due To Primary Government				25
Deferred Revenue		15,903		20,916
Capital Lease Obligations				168
Employees' Compensable Leave				3,106
Notes and Loans Payable			514	51,752
Revenue Bonds Payable			17,932	23,772
Other Current Liabilities	5,105	4,800	23	12,860
Total Current Liabilities	5,130	21,876	19,040	140,120
Non-Current Liabilities:				
Capital Lease Obligations				88
Employees' Compensable Leave				1,185
Notes and Loans Payable			1,033	143,515
Liabilities Payable From Restricted Assets				210,566
Revenue Bonds Payable			65,173	185,823
Other Non-Current Liabilities		22,500	973	23,714
Total Non-Current Liabilities	0	22,500	67,179	564,891
Total Liabilities	5,130	44,376	86,219	705,011
NET ASSETS				
Invested in Capital Assets, Net of Related Debt			32	26,975
Restricted for:				
Education				22,179
Other			3,686	3,686
Unrestricted			5,751	254,192
Total Net Assets	$ 0	$ 0	$ 9,469	$ 307,032

* Amounts at August 31, 2005, unless otherwise indicated in Note 19.

State of Texas
Combining Statement of Activities – Component Units
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)*

	State Bar of Texas	Texas Agricultural Finance Authority	Texas On-Site Wastewater Treatment Research Council	Texas Appraiser Licensing and Certification Board	Texas Prepaid Higher Education Tuition Scholarship Foundation, Inc.
EXPENSES:					
Salaries and Wages	$ 13,643	$ 90	$ 1	$ 228	$
Payroll Related Costs	3,101	16		66	
Professional Fees and Services	2,058	49	139	9	
Travel	1,961	6	11	8	
Materials and Supplies	10,602		6	22	
Communication and Utilities	565	1		3	
Repairs and Maintenance	280	3	2	1	
Rentals and Leases				38	
Printing and Reproduction	2,503			2	
Claims and Judgments	345				
Bad Debt Expense		130			
Cost of Goods Sold	657				
Depreciation and Amortization	743				
Other Financing Fees		12,503			
Public Assistance Payments		658			
Direct Interest Expense		5,014			
Interest Expense - Other					
Other Expenses			52	37	
Total Expenses	36,458	18,470	211	414	0
PROGRAM REVENUES:					
Charges for Services	37,384	1,395		25	
Operating Grants and Contributions	879				
Total Program Revenues	38,263	1,395	0	25	0
Net Program Revenues (Expenses)	1,805	(17,075)	(211)	(389)	0
GENERAL REVENUES:					
Unrestricted Investment Earnings (Losses)		852			
Other Revenues	166	16,921	282	358	
Total General Revenues	166	17,773	282	358	0
Change in Net Assets	1,971	698	71	(31)	0
Net Assets, September 1, 2004	21,326	(1,843)	1,152	16	3
Restatements			(984)		
Net Assets, September 1, 2004, as Restated	21,326	(1,843)	168	16	3
Net Assets, August 31, 2005	$ 23,297	$ (1,145)	$ 239	$ (15)	$ 3

* Amounts for the fiscal year ended August 31, 2005, unless otherwise indicated in Note 19.

** The U.T. Southwestern Moncrief Cancer Center's (Center) relationship with its primary government changed in 2005 from a Discrete Component Unit to a Blended Component Unit. The Center is only being presented here to report a beginning balance and a restatement of that beginning balance. The Center has been restated as a Blended Component Unit in the Combining Statements for Enterprise Funds - Colleges and Universities and is not included in Note 19 due to immateriality within the Enterprise Funds.

Texas Guaranteed Student Loan Corporation	Texas Boll Weevil Eradication Foundation, Inc.	Texas Water Resources Finance Authority	Texas Small Business Industrial Development Corporation	Texas Economic Development Corporation	U.T. Southwestern Moncrief Cancer Center**	Surplus Lines Stamping Office of Texas
$ 32,183	$ 27,912	$ 173	$	$ 21	$	$ 1,170
9,025		29		2		406
18,261	810	3	68	120		337
2,193	327		1	21		79
1,460	3,620			512		36
1,599	767			3		38
1,979	2,363					31
1,940	900			10		191
549				41		21
3,471						607
	313					
		2,054				
		3,079				
661	7,002		2,112			
3,357	51,448	22	551	3		194
76,678	95,462	5,360	2,732	733	0	3,110
1,607	65,441			116		3,463
136,716	48,196	5,171	927	915		46
138,323	113,637	5,171	927	1,031	0	3,509
61,645	18,175	(189)	(1,805)	298	0	399
(6,918)	358		2,053	12		
5,679	1,851					
(1,239)	2,209	0	2,053	12	0	0
60,406	20,384	(189)	248	310	0	399
212,769	(85,249)	56,954	57	331	62,288	8,764
					(62,288)	
212,769	(85,249)	56,954	57	331	0	8,764
$ 273,175	$ (64,865)	$ 56,765	$ 305	$ 641	$ 0	$ 9,163

Concluded on the following page

State of Texas
Combining Statement of Activities – Component Units (concluded)
For the Fiscal Year Ended August 31, 2005 (Amounts in Thousands)*

	Texas Health Reinsurance System	Texas Health Insurance Risk Pool	Texas State Affordable Housing Corporation	Totals
EXPENSES				
Salaries and Wages	$	$ 255	$ 758	$ 76,434
Payroll Related Costs				12,645
Professional Fees and Services		14,321	375	36,550
Travel		1	66	4,674
Materials and Supplies		34		16,292
Communication and Utilities				2,976
Repairs and Maintenance				4,659
Rentals and Leases		61	119	3,259
Printing and Reproduction				3,116
Claims and Judgments				345
Bad Debt Expense				130
Cost of Goods Sold				657
Depreciation and Amortization		5	498	5,324
Other Financing Fees				12,816
Public Assistance Payments				2,712
Direct Interest Expense				8,093
Interest Expense - Other			1,896	11,671
Other Expenses	5,834	216,316	1,529	279,343
Total Expenses	5,834	230,993	5,241	481,696
PROGRAM REVENUES				
Charges for Services	5,818	230,342	2,301	347,892
Operating Grants and Contributions	16	651	3,346	196,863
Total Program Revenues	5,834	230,993	5,647	544,755
Net Program Revenues (Expenses)	0	0	406	63,059
GENERAL REVENUES				
Unrestricted Investment Earnings (Losses)				(3,643)
Other Revenues				25,257
Total General Revenues	0	0	0	21,614
Change in Net Assets	0	0	406	84,673
Net Assets, September 1, 2004			9,063	285,631
Restatements				(63,272)
Net Assets, September 1, 2004, as Restated	0	0	9,063	222,359
Net Assets, August 31, 2005	$ 0	$ 0	$ 9,469	$ 307,032

* Amounts for the fiscal year ended August 31, 2005, unless otherwise indicated in Note 19.

Statistical Section

2005

State of Texas
Governmental Fund Revenues by Source and Expenditures by Function
Last Ten Years*
(Amounts in Millions)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
REVENUES BY SOURCE										
Tax Collections	$ 29,830	$ 27,976	$ 25,939	$ 25,123	$ 27,045	$ 25,226	$ 23,499	$ 22,590	$ 21,071	$ 19,872
Federal Funds	25,851	24,382	23,017	20,310	17,319	16,170	15,316	14,209	14,043	14,068
Licenses, Fees, and Permits	3,590	3,332	2,921	2,815	2,960	2,915	2,826	2,741	2,491	2,575
Interest and Other Investment Income	3,317	2,435	2,118	1,233	1,705	1,578	1,328	1,250	1,417	1,072
Land Income	544	482	298	18	46	11	10	15	13	10
Sales of Goods & Services	1,445	1,109	1,131	962	689	578	664	610	636	517
Other Revenues	2,801	2,277	2,027	1,783	1,854	1,551	2,492	906	936	686
Total Revenues	67,378	61,993	57,451	52,244	51,618	48,029	46,135	42,321	40,607	38,800
EXPENDITURES BY FUNCTION										
General Government	2,151	2,191	1,961	1,846	1,902	1,798	1,673	1,496	1,342	1,306
Education	16,204	16,220	15,927	15,739	15,057	14,743	12,640	12,726	12,429	11,872
Employee Benefits	12	12	12	15	8	8	7	7	2	2
Health and Human Services	27,192	25,039	24,690	22,394	19,036	17,878	17,082	16,005	16,111	16,201
Public Safety and Corrections	3,952	3,887	4,067	4,037	3,812	3,554	3,332	3,136	2,914	2,688
Transportation	3,246	2,970	3,065	3,096	4,720	4,612	3,922	3,398	3,194	3,536
Natural Resources and Recreation	1,039	844	787	713	704	672	712	652	675	594
Regulatory Services	344	371	311	270	260	243	235	228	214	213
Debt Service	682	546	727	626	1,107	971	875	1,169	771	745
Capital Outlay	3,735	2,830	2,654	2,274	389	517	548	355	380	499
Total Expenditures	58,557	54,910	54,201	51,010	46,995	44,996	41,026	39,172	38,032	37,656
EXCESS REVENUES (EXPENDITURES)	$ 8,821	$ 7,083	$ 3,250	$ 1,234	$ 4,623	$ 3,033	$ 5,109	$ 3,149	$ 2,575	$ 1,144

* This table is comprised of the following funds: General, Special Revenue, Debt Service, Capital Projects, and Permanent.

Source: 1996-2005 State of Texas Financial Statements.

State Tax Collections Per Capita
Last Ten Years*
(Amounts in Millions, Except State Tax Collections Per Capita and Percentage Data)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Tax Collections	$ 29,830	$ 27,976	$ 25,939	$ 25,123	$ 27,045	$ 25,226	$ 23,499	$ 22,590	$ 21,071	$ 19,872
Percentage Tax Collection Change From Prior Year	6.63%	7.85%	3.25%	(7.11)%	7.21%	7.35%	4.02%	7.21%	6.03%	5.81%
Resident Population	22.87	22.49	22.10	21.72	21.34	20.95	20.56	20.16	19.74	19.34
Percentage Population Change From Prior Year	1.69%	1.76%	1.75%	1.78%	1.86%	1.90%	1.98%	2.13%	2.07%	2.00%
State Tax Collections Per Capita	$ 1,304	$ 1,244	$ 1,174	$ 1,157	$ 1,267	$ 1,204	$ 1,143	$ 1,121	$ 1,067	$ 1,028

* This table is comprised of the following funds: General, Special Revenue, Debt Service, and Capital Projects.

Source: Tax collections figures taken from the 1996-2005 State of Texas Financial Statements.
Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and have been revised from prior years due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

State of Texas
General Bonded Debt Per Capita
Last Ten Years*
(Amounts in Millions, Except General Bonded Debt Per Capita and Percentage Data)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Bonded Debt (General Obligation Bonds Only)	$ 6,787	$ 5,835	$ 5,784	$ 5,756	$ 5,271	$ 5,143	$ 4,920	$ 5,000	$ 4,931	$ 4,962
Percentage Bonded Debt Change From Prior Year	16.32%	0.88%	0.49%	9.20%	2.49%	4.53%	(1.60)%	1.40%	(0.62)%	8.58%
Resident Population	22.87	22.49	22.10	21.72	21.34	20.95	20.56	20.16	19.74	19.34
Percentage Population Change From Prior Year	1.69%	1.76%	1.75%	1.78%	1.86%	1.90%	1.98%	2.13%	2.07%	2.00%
General Bonded Debt Per Capita	$ 297	$ 259	$ 262	$ 265	$ 247	$ 245	$ 239	$ 248	$ 250	$ 257

* Historical data may reflect a variety of changes in methodology, inflation factors, price indicators, and revisions to interim census figures made by the U.S. Bureau of Economic Analysis.

Source: Bonded debt figures taken from the 1996-2005 State of Texas Financial Statements.
Resident population figures are from the U.S. Department of Commerce, Bureau of Census and Bureau of Economic Analysis and have been revised from prior years.

State of Texas
Ratio of Annual Debt Service Requirements for General Bonded Debt to Total Governmental Fund Type Expenditures
Last Ten Years*

(Amounts in Thousands, Except Percentage Data)

Fiscal Year	Total Debt Service**	Total Expenditures	Ratio of Debt Service to Expenditures
2005	$ 710,881	$ 58,556,867	1.21%
2004	$ 481,572	$ 54,910,145	0.88%
2003	$ 568,446	$ 54,201,162	1.05%
2002	$ 590,500	$ 51,010,430	1.16%
2001	$ 537,040	$ 46,995,249	1.14%
2000	$ 514,929	$ 44,995,790	1.14%
1999	$ 538,212	$ 41,025,727	1.31%
1998	$ 508,415	$ 39,172,095	1.30%
1997	$ 495,515	$ 38,031,899	1.30%
1996	$ 446,456	$ 37,656,055	1.19%

* This table is comprised of the following funds: General, Special Revenue, Debt Service, Capital Projects, and Permanent.

** Debt Service requirements include scheduled principal and interest payments. Payments for refundings are excluded. The following bonds are included: Veterans Bonds; Water Bonds; Park Developments Bonds; College Student Loan Bonds; Higher Education Constitutional Bonds; and Public Finance Authority Bonds.

Source: 1996-2005 State of Texas Financial Statements.

State of Texas
Revenue Bond Coverage
Last Ten Years
(Amounts in Thousands)

	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
Total Pledged Sources and Other Sources*	$8,533,339	$7,179,042	$6,512,818	$7,356,581	$5,456,773	$5,017,262	$4,527,904	$4,063,737	$3,631,993	$3,902,440
Operating and Capital Outlay Expenditures/ Expenses	855,464	888,355	548,010	210,734	97,341	89,534	75,865	101,765	106,857	126,377
Net Revenue Available for Debt Service	$7,677,875	$6,290,687	$5,964,808	$7,145,847	$5,359,432	$4,927,728	$4,452,039	$3,961,972	$3,525,136	$3,776,063
Scheduled Debt Service Payments:										
Principal	$ 634,149	$ 543,779	$ 582,368	$ 325,404	$ 306,937	$ 287,799	$ 275,543	$ 251,852	$ 248,574	$ 216,887
Interest	535,258	529,684	415,690	404,868	393,679	391,527	352,989	351,610	380,867	345,927
Total Debt Service	$1,169,407	$1,073,463	$ 998,058	$ 730,272	$ 700,616	$ 679,326	$ 628,532	$ 603,462	$ 629,441	$ 562,814
Coverage	6.57	5.86	5.98	9.79	7.65	7.25	7.08	6.57	5.60	6.71

* Includes operating revenues, interest earned on investments, other pledged revenues, and other sources.

Source: 1996-2005 State of Texas Financial Statements.

State of Texas
Texas Gross State Product by Industry, 1995-2004
(Amounts in Millions of Dollars)

NAICS* Industry	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Agriculture, Forestry, Fishing, and Hunting	$ 5,791	$ 6,879	$ 6,691	$ 6,052	$ 6,752	$ 6,470	$ 6,394	$ 7,399	$ 7,986	$ 7,907
% Change	(5.4)	18.8	(2.7)	(9.6)	11.6	(4.2)	(1.2)	15.7	7.9	(1.0)
Natural Resources and Mining	24,262	31,179	34,047	22,128	26,054	42,208	41,270	35,986	49,310	56,971
% Change	1.5	28.5	9.2	(35.0)	17.7	62.0	(2.2)	(12.8)	37.0	15.5
Construction	20,412	22,542	25,333	28,836	31,236	34,232	36,448	36,761	37,899	39,700
% Change	6.1	10.4	12.4	13.8	8.3	9.6	6.5	0.9	3.1	4.8
Manufacturing	78,945	83,504	92,409	98,754	92,624	94,119	93,877	91,612	97,927	106,749
% Change	8.1	5.8	10.7	6.9	(6.2)	1.6	(0.3)	(2.4)	6.9	9.0
Trade, Transportation, and Utilities	107,538	115,549	126,707	135,271	146,289	155,527	157,718	163,561	169,075	178,939
% Change	5.9	7.4	9.7	6.8	8.1	6.3	1.4	3.7	3.4	5.8
Information	23,889	25,920	27,370	30,823	33,636	36,585	37,806	36,446	37,315	40,500
% Change	6.5	8.5	5.6	12.6	9.1	8.8	3.3	(3.6)	2.4	8.5
Financial Activities	77,202	83,102	92,684	99,158	108,563	116,946	119,864	132,566	139,007	149,265
% Change	5.4	7.6	11.5	7.0	9.5	7.7	2.5	10.6	4.9	7.4
Professional and Business Services	42,811	47,930	56,380	62,939	69,409	73,081	82,085	82,984	86,450	96,195
% Change	8.7	12.0	17.6	11.6	10.3	5.3	12.3	1.1	4.2	11.3
Educational and Health Services	30,573	32,544	35,507	37,175	39,347	42,345	46,728	51,161	54,490	58,095
% Change	6.9	6.4	9.1	4.7	5.8	7.6	10.4	9.5	6.5	6.6
Leisure and Hospitality Services	14,987	16,176	18,642	19,959	21,760	23,104	23,984	25,445	26,162	27,583
% Change	6.3	7.9	15.2	7.1	9.0	6.2	3.8	6.1	2.8	5.4
Other Private Services	12,736	13,449	14,674	15,925	16,584	17,615	18,114	18,833	19,491	20,366
% Change	6.0	5.6	9.1	8.5	4.1	6.2	2.8	4.0	3.5	4.5
Government, including Schools	63,449	66,003	69,136	71,045	75,251	80,596	84,447	90,949	96,831	101,864
% Change	5.4	4.0	4.7	2.8	5.9	7.1	4.8	7.7	6.5	5.2
TOTAL	$502,595	$544,777	$599,580	$628,065	$667,505	$722,828	$748,735	$773,703	$821,943	$884,134
% Change	6.1	8.4	10.1	4.8	6.3	8.3	3.6	3.3	6.2	7.6
TOTAL (In 2000 Chained Dollars)	$542,563	$575,122	$627,501	$664,153	$696,383	$722,832	$734,864	$755,448	$769,410	$804,598
% Change	4.8	6.0	9.1	5.8	4.9	3.8	1.7	2.8	1.8	4.6

* North American Industry Classification System

Source: U.S. Bureau of Economic Analysis. The 2005 numbers have not been released at press time. The numbers are subject to revision.

State of Texas
Texas Salary Earnings by Industry, 1996–2005
(Amounts in Millions)

Industry	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Agriculture, Forestry, and Fishing	$ 1,093	$ 1,171	$ 1,213	$ 1,389	$ 1,400	$ 1,688	$ 1,695	$ 1,557	$ 1,599	$ 1,774
% Change	1.0	7.1	3.6	14.5	0.8	20.6	0.4	(8.1)	2.7	10.9
Natural Resources and Mining	8,930	10,186	10,875	10,298	11,581	12,450	12,057	11,873	13,218	14,282
% Change	5.8	14.1	6.8	(5.3)	12.5	7.5	(3.2)	(1.5)	11.3	8.0
Construction	13,387	14,689	16,674	18,462	20,545	21,209	21,077	21,389	21,559	22,860
% Change	11.7	9.7	13.5	10.7	11.3	3.2	(0.6)	1.5	0.8	6.0
Manufacturing	37,414	40,610	45,032	46,054	49,113	47,756	44,698	44,166	45,935	48,692
% Change	6.3	8.5	10.9	2.3	6.6	(2.8)	(6.4)	(1.2)	4.0	6.0
Trade, Transportation, and Utilities	49,400	54,199	60,177	65,936	72,326	72,404	69,997	69,901	72,976	77,656
% Change	7.0	9.7	11.0	9.6	9.7	0.1	(3.3)	(0.1)	4.4	6.4
Information	10,633	11,485	12,288	13,220	13,924	14,706	13,315	12,636	13,107	13,908
% Change	3.0	8.0	7.0	7.6	5.3	5.6	(9.5)	(5.1)	3.7	6.1
Financial Activities, incl. Real Estate	17,072	19,011	21,621	23,149	25,364	27,447	27,783	29,199	31,624	34,300
% Change	10.1	11.4	13.7	7.1	9.6	8.2	1.2	5.1	8.3	8.5
Professional and Business Services	26,269	30,625	35,252	38,981	43,918	47,217	46,429	46,609	51,260	55,274
% Change	11.8	16.6	15.1	10.6	12.7	7.5	(1.7)	0.4	10.0	7.8
Educational and Health Services	19,945	22,330	24,455	26,129	28,535	31,013	33,514	35,391	37,674	40,687
% Change	9.8	12.0	9.5	6.8	9.2	8.7	8.1	5.6	6.5	8.0
Leisure, Hospitality, and Other Services	15,437	17,096	18,733	20,269	22,180	23,708	24,731	25,472	26,688	28,284
% Change	8.3	10.7	9.6	8.2	9.4	6.9	4.3	3.0	4.8	6.0
Local, State, and Federal Government	42,261	44,248	46,561	49,060	52,687	55,184	59,094	62,006	63,680	66,285
% Change	3.7	4.7	5.2	5.4	7.4	4.7	7.1	4.9	2.7	4.1
TOTAL*	$241,841	$265,650	$292,881	$312,947	$341,573	$354,782	$354,390	$360,199	$379,320	$404,002
% Change	7.3	9.8	10.3	6.9	9.1	3.9	(0.1)	1.6	5.3	6.5

* Totals may not sum exactly because of rounding.

Source: U.S. Bureau of Economic Analysis and Texas Comptroller of Public Accounts (2005 estimates). The Bureau revised historical data contained in this table due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

Texas and U.S.
Total Personal Income, Population, and Per Capita Income, 1996-2005

Year	Total Personal Income (Million $)				Population (Thousands)				Per Capita Income ($)			
	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change	Texas	Percent Change	U.S.	Percent Change
1996	427,811	7.4%	6,512,485	5.9%	19,340	2.0%	269,394	1.2%	22,120	5.3%	24,175	4.6%
1997	466,182	9.0%	6,907,332	6.1%	19,740	2.1%	272,647	1.2%	23,616	6.8%	25,334	4.8%
1998	507,681	8.9%	7,415,709	7.4%	20,158	2.1%	275,854	1.2%	25,186	6.6%	26,883	6.1%
1999	539,661	6.3%	7,796,137	5.1%	20,558	2.0%	279,040	1.2%	26,250	4.2%	27,939	3.9%
2000	593,139	9.9%	8,422,074	8.0%	20,949	1.9%	282,192	1.1%	28,313	7.9%	29,845	6.8%
2001	619,642	4.5%	8,716,992	3.5%	21,335	1.8%	285,102	1.0%	29,044	2.6%	30,575	2.4%
2002	626,784	1.2%	8,872,521	1.8%	21,723	1.8%	287,941	1.0%	28,853	(0.7)%	30,814	0.8%
2003	651,009	3.9%	9,156,108	3.2%	22,103	1.7%	290,789	1.0%	29,453	2.1%	31,487	2.2%
2004	690,376	6.0%	9,702,525	6.0%	22,490	1.8%	293,655	1.0%	30,697	4.2%	33,041	4.9%
2005*	743,022	7.6%	10,284,854	6.0%	22,865	1.7%	296,345	0.9%	32,496	5.9%	34,706	5.0%

* 2005 personal income estimates used three quarters of actual data. The fourth quarter is estimated using the average growth rate during the first three quarters.

Source: U.S. Bureau of Economic Analysis and Texas Comptroller of Public Accounts. The Bureau revised historical data contained in this table due to changes in methodology, inflation factors, price indicators, and revisions to interim census figures.

Texas and U.S.
Employment and Unemployment Rates, 1996-2005
(Thousands of Jobs and Percent)

Year	Nonfarm Employment				Unemployment Percentage Rate	
	Texas	Percent Change	U.S.	Percent Change	Texas	U.S.
1996	8,256	2.9%	119,699	2.0%	5.6	5.4%
1997	8,608	4.3%	122,767	2.6%	5.4	4.9%
1998	8,940	3.9%	125,924	2.6%	4.8	4.5%
1999	9,160	2.5%	128,992	2.4%	4.6	4.2%
2000	9,427	2.9%	131,791	2.2%	4.2	4.0%
2001	9,514	0.9%	131,837	0.0%	4.8	4.8%
2002	9,416	(1.0)%	130,343	(1.1)%	6.3	5.8%
2003	9,370	(0.5)%	129,937	(0.3)%	6.7	6.0%
2004*	9,478	1.2%	131,475	1.2%	6.1	5.5%
2005*	9,604	1.3%	133,621	1.6%	5.4	5.1%

* 2004 and 2005 numbers are subject to benchmark revisions. 2005 numbers include an estimate for December.

Source: Texas Workforce Commission, Texas Comptroller of Public Accounts, and U.S. Bureau of Labor Statistics. Historical data have been revised.

State of Texas
Residential and Nonresidential Construction, 1996-2005

Calendar Year	Single Family Housing Starts	Multiple Family Housing Starts	Total Residential Housing Starts	Nonresidential Construction (Thous. Sq. Ft)
1996	90,317	31,236	121,553	100,663
1997	88,064	43,666	131,730	120,381
1998	108,686	52,453	161,139	161,938
1999	106,993	41,257	148,250	158,837
2000	111,625	32,620	144,245	162,981
2001	117,776	29,297	147,073	159,422
2002	126,913	35,642	162,555	132,191
2003	138,715	39,021	177,736	130,425
2004	145,891	33,130	179,021	123,512
2005*	162,309	32,802	195,111	119,448

* Values for 2005 are a combination of actual data and estimates for unavailable quarters from the Comptroller's econometric forecasting model.

Source: U.S. Bureau of the Census, Global Insight, Inc., the Real Estate Center at Texas A&M Unversity, and Texas Comptroller of Public Accounts. Historical data in this table have been revised due to changes in methodology or seasonal adjustment revisions.

State of Texas
Market Value of Taxable Property, 1995-2004*
(Billions of Dollars)

Year	Value	% Change
1995	$ 660.5	3.7%
1996	$ 661.2	0.1%
1997	$ 708.9	7.2%
1998	$ 747.4	5.4%
1999	$ 793.0	6.1%
2000	$ 863.1	8.8%
2001	$ 943.3	9.3%
2002	$1,000.7	6.1%
2003	$1,057.9	5.7%
2004	$1,123.6	6.2%

* Market Value numbers for 2005 were not yet available at the time of publication.

Source: Texas Comptroller of Public Accounts.

Numbers reflect taxable value of real and personal property as estimated for school district funding.

State of Texas
Texas Banking Activity, 1996-2005
All Commercial Banks Headquartered in Texas
(Millions of Dollars)

Year	Total Assets	Percent Change in Assets	Total Deposits*	Percent Change	Texas Deposits** (June 30)	Percent Change	Total Equity Capital	Total Loans	Noncurrent Loans	Number of Reporting Institutions
1996	$205,184	1.2%	$168,218	8.3%	$154,517	6.0%	$17,259	$104,950	$929	877
1997	$235,098	14.6%	$191,791	14.0%	$165,017	6.8%	$19,416	$119,668	$900	838
1998	$179,694	(23.6)%	$149,093	(22.3)%	$171,412	3.9%	$15,257	$94,152	$810	798
1999	$181,144	0.8%	$143,242	(3.9)%	$175,249	2.2%	$14,742	$99,584	$901	753
2000	$166,352	(8.2)%	$133,164	(7.0)%	$181,505	3.6%	$14,297	$96,236	$793	709
2001	$144,677	(13.0)%	$120,866	(9.2)%	$207,622	14.4%	$13,678	$78,286	$773	686
2002	$157,396	8.8%	$129,088	6.8%	$217,601	4.8%	$15,402	$84,225	$772	669
2003	$136,452	(13.3)%	$112,803	(12.6)%	$250,913	15.3%	$13,139	$74,011	$695	653
2004	$151,467	11.0%	$123,815	9.8%	$266,987	6.4%	$14,816	$87,512	$604	639
2005***	$165,334	9.2%	$134,561	8.7%	$312,637	17.1%	$16,801	$97,119	$690	633

* Total deposit losses in 1998, 2000, 2001, and 2003 represent the merger or acquisition of banks previously headquartered in Texas.

** Texas deposits in all FDIC-insured commercial banks, regardless of headquarters location.

*** Data for all years are for December 31st, unless otherwise specified. In 2005, all data are for September 30, 2005.

Source: Federal Deposit Insurance Corporation (FDIC).

State of Texas
Total Retail Sales, 1996-2005

Year	Million $	Percent Change
1996	$216,302	8.8%
1997	$232,711	7.6%
1998	$244,911	5.2%
1999	$265,073	8.2%
2000	$298,614	12.7%
2001	$307,070	2.8%
2002	$296,008	(3.6)%
2003*	$307,896	4.0%
2004*	$327,469	6.4%
2005**	$162,675	9.2%

* 2003 and 2004 have been revised.

** First half of 2005 and the percentage change over the first half of 2004.

Source: Texas Comptroller of Public Accounts.

State of Texas
Texas Public School Enrollment
By Grade and Ethnic Grouping
1994-95 Through 2004-05

Academic Year	Grade K-3	Grade 4-6	Grade 7-9	Grade 10-12	All Grades	Percent Increase
1994-95	1,153,255	866,810	894,984	633,386	3,548,435	1.7%
1995-96	1,171,927	874,527	912,884	655,075	3,614,413	1.9%
1996-97	1,192,932	887,512	931,356	685,413	3,697,213	2.3%
1997-98	1,210,804	891,245	944,175	712,047	3,758,271	1.7%
1998-99	1,227,343	901,404	954,700	726,895	3,810,342	1.4%
1999-00	1,236,618	915,189	966,797	737,088	3,855,692	1.2%
2000-01	1,249,519	934,197	976,226	756,488	3,916,430	1.6%
2001-02	1,265,391	953,774	993,954	780,343	3,993,462	2.0%
2002-03	1,287,167	966,841	1,017,094	805,022	4,076,124	2.1%
2003-04	1,311,545	972,927	1,029,234	820,172	4,133,878	1.4%
2004-05	1,340,618	976,633	1,045,458	833,301	4,196,010	1.5%
Change since 1994-95	187,363	109,823	150,474	199,915	647,575	18.2%
Percent of Total Increase	28.9%	17.0%	23.2%	30.9%	100.0%	

Academic Year	American Indian	Asian	Black	Hispanic	Caucasian	Total*
1994-95	8,803	83,416	526,757	1,325,768	1,732,427	3,677,171
1995-96	9,566	86,706	536,386	1,375,896	1,739,613	3,748,167
1996-97	9,927	91,051	549,667	1,435,521	1,750,930	3,837,096
1997-98	10,578	95,136	560,405	1,478,984	1,755,385	3,900,488
1998-99	11,925	100,143	568,757	1,526,713	1,746,896	3,954,434
1999-00	11,293	103,686	576,977	1,582,538	1,727,733	4,002,227
2000-01	12,120	108,605	586,712	1,650,560	1,713,436	4,071,433
2001-02	12,774	116,222	596,962	1,734,388	1,700,622	4,160,968
2002-03	13,162	122,485	608,045	1,818,531	1,693,598	4,255,821
2003-04	13,791	127,092	616,050	1,894,108	1,676,987	4,328,028
2004-05	14,350	133,271	623,534	1,969,097	1,660,392	4,400,644
Change since 1994-95	5,547	49,855	96,777	643,329	(72,035)	723,473
Percent of Total Increase	0.8%	6.9%	13.4%	88.9%	(10.0)%	100.0%

* Ethnic counts include children in Early Education and Pre-Kindergarten programs not shown.

Percentages may not sum exactly due to rounding.

Source: Texas Education Agency.

State of Texas
Higher Education Enrollment, Last Ten Years

Institutions	Fall 1996	Fall 1997	Fall 1998	Fall 1999	Fall 2000	Fall 2001	Fall 2002	Fall 2003	Fall 2004	Fall 2005*	Percentage Change 1996 to 2005
Public Universities	397,293	396,265	398,258	407,074	414,626	430,770	455,719	472,818	482,124	486,217	22.4%
Independent Senior Colleges and Universities	96,685	98,873	102,489	104,179	107,681	111,259	112,310	114,148	115,155	116,706	20.7%
Public Community and State Colleges	407,556	413,631	412,684	426,519	438,730	468,201	505,050	525,281	545,989	558,762	37.1%
Public Technical Institutes	8,008	8,468	8,724	8,804	9,268	10,112	10,721	10,724	11,384	11,418	42.6%
Independent Junior Colleges	751	767	673	609	634	670	678	760	697	698	(7.1)%
Public Medical, Dental and Health-Related Units	15,378	15,333	15,374	12,410	12,607	13,100	13,795	14,243	15,089	15,657	1.8%
Independent Medical, Dental and Health-Related Units	1,156	1,174	1,162	1,186	1,199	1,206	2,459	2,592	2,671	2,785	140.9%
Total Per Year	926,827	934,511	939,364	960,781	984,745	1,035,318	1,100,732	1,140,566	1,173,109	1,192,243	28.6%

* 2005 numbers are based on preliminary data.

Source: Texas Higher Education Coordinating Board.

Number of Higher Education Institutions – 2005

Public Universities	35
Independent Senior Colleges and Universities	39
Public Community and State Colleges	53
Public Technical Institutes	4
Independent Junior Colleges	2
Public Medical Schools and Health Science Centers	9
Independent Medical and Dental Schools	3
Total Institutions for 2005	145

Source: Texas Higher Education Coordinating Board.

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